Canada Life™

more than ever

2001
Annual Report

Operations at a Glance

Division and Principal Offices	Operating Locations	Distribution Channels	Products and Services	
			Wealth Management	Protection
Canada Toronto, Ontario Regina, Saskatchewan London, Ontario Montreal, Quebec	In all 10 provinces: 5 individual marketing centres 12 group sales offices 15 individual sales offices 6 regional group claims and services offices	Independent brokers, consulting firms, financial institutions, direct worksite and Internet	Retirement savings plans Non-registered savings programs Payout annuities Fixed annuities Segregated funds Employee stock purchase and options plans Investment management services	Life, disability, critical illness, dental, accidental death and dismemberment insurance Creditor life, health and job loss insurance Expatriate coverage Extended health care plans
United Kingdom Potters Bar, Hertfordshire Castletown, Isle of Man	Throughout the U.K.: 17 business centres 3 regional sales offices 3 group sales offices Overseas: International account managers on the Isle of Man covering the U.K., Sweden, Finland, Gibraltar, Cyprus and the Channel Islands	Direct sales consultants, independent financial advisors and benefit agencies	Immediate and deferred individual annuities Group payout annuities for individuals retiring from company sponsored pension plans Unit-linked life insurance and pensions Unit trusts and individual savings accounts Investment and savings products (including tax efficient offshore products)	Individual term life insurance (including participating), critical illness and disability insurance Group term life insurance and disability income insurance
United States Atlanta, Georgia	In all 50 states and the District of Columbia: 20 regional sales offices 30 group offices	Independent agent field force and brokers Salaried group sales representatives	Individual fixed and variable annuity products Group accumulation annuity products and group payout annuities	Individual and group life insurance Group accidental death, disability, dental, stop loss and critical illness insurance
Republic of Ireland Blackrock, Dublin	Throughout Ireland: 13 branch offices Cologne, Germany	Independent brokers and financial consultants (direct sales)	Regular premium pension accumulation Single premium pension accumulation Single premium fixed payout annuities Single premium investments Participating endowments	Term life, regular premium unit-linked and critical illness insurance Short term single premium, group life and disability insurance
International and Reinsurance Toronto, Ontario Regina, Saskatchewan	In the following countries: United States (including Puerto Rico, U.S. Virgin Islands, Guam and American Samoa), Brazil, Hong Kong, Macau, Bermuda, Bahamas, Cayman Islands and the Republic of Ireland	Reinsurance directly through sales representatives in the United States and Europe Direct insurance through brokers and general agents	Annuities and pensions Investment and savings products	Direct reinsurance and retrocession of life, disability, health and accident insurance as well as financial reinsurance Individual and group life, health and disability insurance

Contents

Canada Life Financial Corporation, established in 1999, is traded on the Toronto and New York Stock Exchanges.

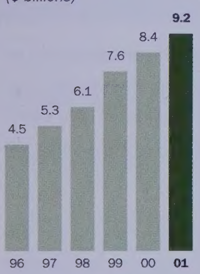
The principal subsidiary, The Canada Life Assurance Company, was founded in 1847 and is Canada's first domestic life insurance company.

In our second full year as a public company, we continued to deliver on our commitments to keep building a vibrant and profitable organization in the best interests of our shareholders. We are driven by our vision to be a world class financial services provider, delivering exceptional customer value and helping people achieve more, through the excellence and integrity of our people.

More than ever...

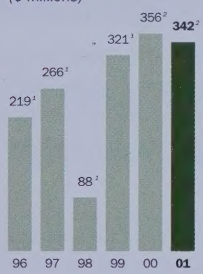
we are focused on delivering on our commitments

Premiums and new deposits
($ billions)



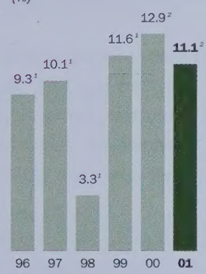
Compound annual growth rate of 13%

Shareholders' net income
($ millions)



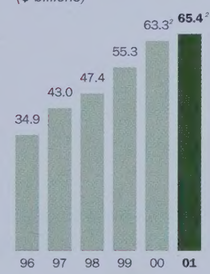
Shareholders' net income reached $427 million excluding the provision for September 11, 2001

Return on shareholders' equity
(%)



Return on shareholders' equity reached 13.7% excluding the provision for September 11, 2001

Assets under administration
($ billions)



Compound annual growth rate of 11%

[1] *Pre-demutualization, see page 92 footnote 3.*

[2] *Change in accounting policy, see page 92 footnote 1.*

Financial Strength Ratings:

A.M. Best A+	(Superior, 2nd highest of 16)
Moody's Aa3	(Excellent, 4th highest of 21)
Standard & Poor's AA	(Very Strong, 3rd highest of 21)

This report provides management with the opportunity to discuss the financial performance and condition of the Company and, as such, may contain forward-looking statements about strategies and expected financial results. Statements that are predictive in nature, which depend upon or refer to future events or conditions, or which include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and similar expressions constitute forward-looking statements. In addition, any statements that may be made concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company actions, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about the future events and are subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the insurance industry generally. Such statements are not guarantees of future performance and the Company has no specific intentions to update those statements whether as a result of new information, future events or otherwise. Accordingly, the reader is cautioned against undue reliance on these forward-looking statements. Actual events and results could differ materially from those indicated in the forward-looking statements made by the Company due to, but not limited to, important factors such as general economic and market factors, interest rates, equity markets, business competition and changes in government regulations.

More than ever...

2001 was a challenging year for your Company. The slowing economy, sharp declines in equity values and the September 11 terrorist attack all had an impact on our results.

In spite of these influences, I am pleased to report that our underlying achievements met or exceeded our key objectives for top and bottom line growth in 2001. In particular, our premiums, premium equivalents and new deposits were very strong, increasing 21 per cent. Shareholders' net income, excluding a special provision for September 11, 2001, was up 20 per cent over 2000.

The World Trade Center tragedy affected us directly through our reinsurance business. We set aside a provision of $85 million, after tax, to cover potential exposure on claims that may be paid over the next several years. This exposure comprises special risk reinsurance (including workers' compensation and catastrophe coverage) contracts with other insurers and reinsurers.

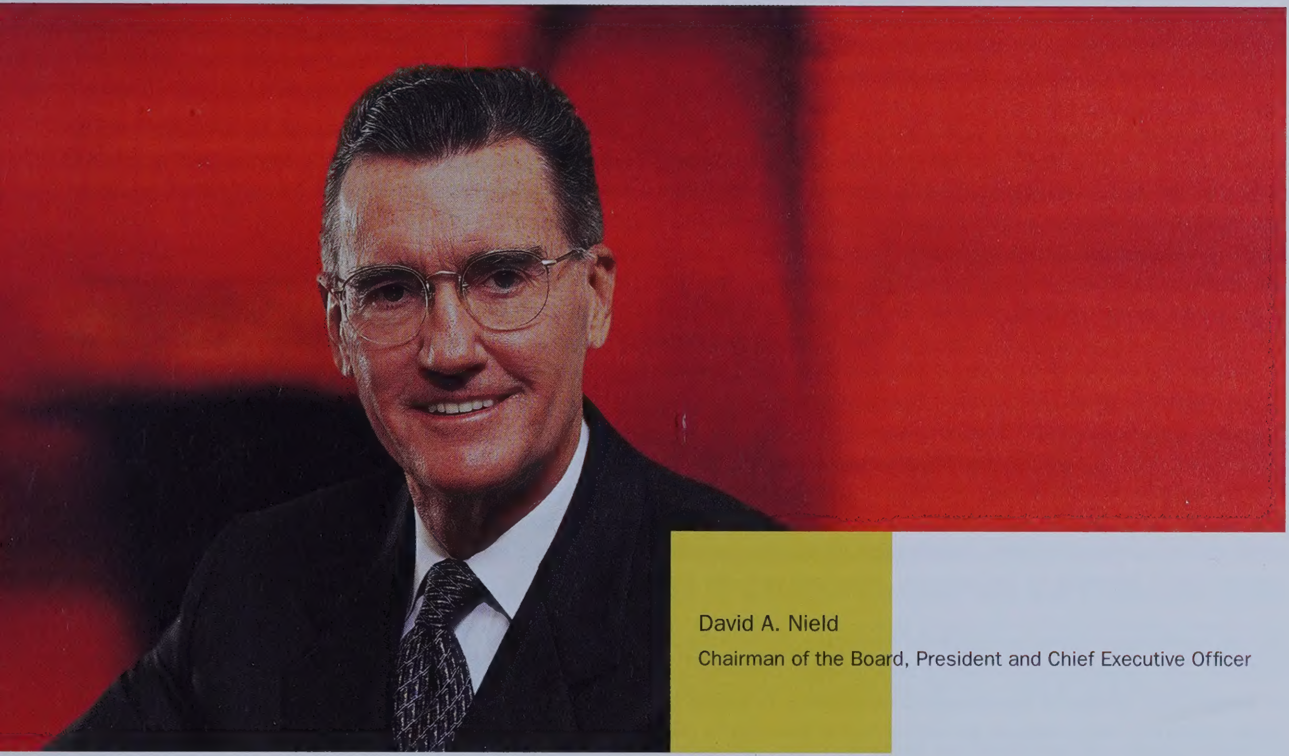
Meeting Our Key Objectives

Premiums, including premium equivalents and new deposits, grew to $11.2 billion in 2001, 21 per cent ahead of the $9.3 billion in 2000, reflecting strong sales in both protection and wealth management businesses.

Shareholders' net income, excluding the provision for September 11, 2001, was $427 million for 2001, up from $356 million in 2000.

Earnings per share, excluding the special provision, was $2.66, up from $2.22 in 2000.

Return on shareholders' equity, excluding the special provision, was 13.7 per cent, within the 13–14 per cent range that we expected going into 2001.



David A. Nield
Chairman of the Board, President and Chief Executive Officer

Assets under administration were $65.4 billion, up three per cent year over year.

Book value per common share increased 12 per cent to $20.19.

General expenses in 2001 of $794 million represented 7.1 per cent of premiums, premium equivalents and new deposits. This compares favourably to the 8.0 per cent achieved in 2000. During 2001, we intensified our cost reduction efforts through more stringent expense controls by limiting expense growth while maximizing top line growth.

Around the globe, we will continue to reinforce our emphasis on performance and, more than ever, increase the link between results and compensation.

Growing Our Market Share

In our new markets, our main objective is to build on the excellent start we've made in gaining market recognition and to grow market share. In markets where we're established, we intend to keep expanding market share and to solidify our leadership positions in key business segments, while raising revenue levels and managing costs efficiently to ensure healthy profits.

In 2001, we continued to build Canada Life through product, distribution and geographic diversity, reinforcing both new ventures and our established markets. Growth was mainly organic, which we supplemented with strategic acquisitions.

Building Successful New Ventures

In 2001, our insurance operation in Germany continued on a successful growth path since the business was launched in July 2000, achieving superior results for a new entrant in this market. We introduced a "unitized with profits" product

concept unique to this market, signed on close to 1,000 brokers to represent us, sold more than 4,000 contracts split evenly between "essential ability" (disability) and pension accumulation products, put together a distribution arrangement with a large independent sales organization, and created an extensive administration structure to provide a high level of customer and producer service.

Our operations in Brazil, established in 2000, were strengthened in 2001. We purchased the remaining 10 per cent shareholding of our joint venture with Banco Pactual and now own 100 per cent of the subsidiary, Canada Life Pactual Previdência e Seguros S.A. We acquired a major block of defined benefit pension administration business to complement our defined contribution pension product portfolio, more than doubling revenues and increasing plan membership to close to 4,000 individuals by year-end 2001. We also grew our group life insurance business from the ground up, to $1.2 million in revenues representing 52 new contracts.

Kanetix Ltd., our e-commerce operating subsidiary in Canada, maintained its position as the top insurance aggregator in the country. *kanetix.com*, Canada's national online insurance marketplace, experienced steady growth throughout the year attracting new suppliers and adding products to the service. By year-end 2001, approximately 30 insurance companies were represented either directly or through broker relationships on the site, and consumer usage increased more than threefold year over year for Internet-based shopping for car, property, travel and term life insurance.

Our life reinsurance operation expanded internationally with the incorporation in February of Canada Life International Re, based in Dublin. The subsidiary began writing non-Canadian business in October, capitalizing on Canada Life's positive image worldwide to attract opportunities in traditional life reinsurance emerging from direct insurance writers in the United States and European Union countries, which account for almost half of the world's reinsurance business.

Generating Strong Revenue Growth from Established Markets

Our businesses in established markets generated strong revenue growth in various areas of operation, reinforcing more than ever our commitment to diversity.

In Canada, overall growth in premiums, premium equivalents and new deposits continued to increase, up 18 per cent over 2000. Earnings from individual life insurance rose 36 per cent over 2000, reflecting the completion of a large-scale systems conversion and the full impact of the Crown Life acquisition integration. In the group pensions business, major improvement in customer service and satisfaction resulted in strong customer retention and sales. Group life and health insurance earnings climbed 32 per cent over 2000, spurred by growth in business and recovery of margins in the employee benefit business. Moreover, the acquisition of an affinity operation centred on accidental death and dismemberment insurance has enabled us to enter a specialized niche for selling to sponsored markets through employers and various financial institutions.

In wealth management, the *Generations* investment product portfolio was successfully expanded with new segregated funds. We incorporated Canada Life Securities Inc., an investment dealer, which allows us to execute mutual fund trades resulting from our acquisition of the group savings business of another financial institution.

In the United Kingdom, our premiums, premium equivalents and new deposits rose 31 per cent particularly driven by the Division's Isle of Man subsidiary. This offshore operation is, in turn, driven by a results-oriented management team and sales through Independent Financial Advisors, who are supported by flexible products that are backed up by a choice of first class fund managers and a strong customer service orientation. Through this operation, Canada Life continued to be one of the largest offshore providers selling wealth management products in the United Kingdom. We also continued to grow our group life and health insurance business, posting double-digit gains in 2001 over 2000 and resulting in a combined nine per cent market share. In addition, we reinforced our top 10 position as a leading retirement income provider offering payout annuities and the innovative *Annuity Growth Account* product, which registered a 79 per cent sales increase in 2001 over 2000 — $95 million in new business premium income.

In the United States, we achieved strong sales and revenue growth across all operating lines, including guaranteed investment products, fixed annuities and life insurance. In group life and health insurance, we continued to strengthen our market position and penetration by increasing the number of sales representatives throughout the country. In addition, we completed a small incremental acquisition of an in-force block of business that also included a marketing alliance with another U.S.-based financial services provider. In individual insurance, we broadened our product portfolio and built up our marketing and distribution network in support of our Variable Universal Life product line.

In the Republic of Ireland, Canada Life's new business continued to register exceptional double-digit revenue growth at twice the market growth rate, firmly establishing our position as the fastest growing major life insurance company in the Irish market. The Annual Premium Equivalent, the standard industry measure of new business, increased 39 per cent over 2000, to reach $176 million. We continued to build recognition and presence in the wealth management business with strong sales of pension products, good performance of our asset management subsidiary Setanta, and service quality that independent brokers in the Republic of Ireland ranked number two in this highly competitive field.

Improving Customer Service ... Reducing Costs through Information Technology

In 2001, we undertook a review of our global strategic direction for information technology. We intend to continue to achieve economies of scale and to leverage the intellectual capital in our information technology areas. We will also continue to enhance our systems capability to launch new products and to integrate new blocks of business. In addition, we will continue to introduce systems process changes to increase self-service capabilities and to improve customer service — all at reduced cost.

More than ever, significant progress was made in replacing decades-old "legacy" systems and upgrading technological capability in various areas of operation.

In Canada, we concluded conversion of a large-scale 30-year-old computer system to industry standard-setting technology, which makes business easy for our group life and health insurance customers through innovative online capability. The contemporary configuration enables web-based self-service for plan administrators and employees.

Similarly in the United States, we completed and implemented an interactive, customer-focused web-based platform, enabling more than 300 employer customers to access their master group life and health insurance accounts online and to conduct transactions in real-time. This was rolled out in the fall of 2001, and we expect a substantial increase in customers using the new service throughout 2002. Concurrently, we upgraded and converted our individual administration systems, allowing us to design more flexible products and to bring them to market faster. We are already realizing the productivity gains anticipated with the systems implementation.

In the Republic of Ireland, we stepped up investment in pensions systems to position us more effectively in taking advantage of a changing retirement savings market in the face of new regulatory requirements and tighter margins.

In the United Kingdom, we continued to replace and to rationalize systems onto one operating platform in order to maximize cost-efficiency and to refine customer service.

Strengthening Our Corporate Identity

In September, we introduced a more contemporary logo and look around the globe, which reflects our emphasis on both protection and wealth management products. The new design also serves to strengthen our corporate identity with one common image everywhere we operate — Canada, the United Kingdom, the United States, the Republic of Ireland, Germany, Brazil, the Caribbean and Hong Kong.

Chairman's Message

More Than Ever ... A Bright Future Continuing To Build a Strong and Growing Company

During 2002, we will be accelerating our expense containment efforts and are aiming to maintain general expenses at the same level as 2001 while targeting low double-digit annual growth in the top line — that is, premiums, premium equivalents and new deposits.

At the same time for 2002, we are aiming for low double-digit annual growth in net income, and return on equity is anticipated to be in the 13.5–14.5 per cent range.

We will continue to build on our strong investment performance. In 2001, our Investment Division successfully secured a high volume of quality investments to support the Company's new businesses. Credit quality of the fixed income portfolio was generally maintained during the difficult economic environment, and the quality of our commercial mortgage portfolio has remained outstanding.

We will continue to escalate our aggressive efforts to streamline operations and to enhance customer service. Simply put, the goal is to exceed customers' expectations — to be a company that's easy to do business with, giving each customer "the right answer, right for me, right now".

In all markets, as we continue to face a growing abundance of complex laws and rapidly changing regulations that dictate how we must conduct business, we will continue to deal with this reality effectively. In 2001, we established a distinct corporate compliance department and appointed a Chief Compliance Officer with the mandate to ensure that our operations and activities in every jurisdiction meet government requirements.

Around the globe, we will continue to reinforce our emphasis on performance and, more than ever, increase the link between results and compensation. In 2001, we introduced company-subsidized employee share purchase plans that, together with the stock option plan, increase the alignment of staff and shareholder interests. We are now intensifying our focus on targeted on-the-job training with special attention to aspects that further customer service. In addition, we are increasing our attention to developing leaders for the future.

At Canada Life, we believe people excel in an intense, learning-oriented, performance-charged setting where we work together in support of individual and corporate goals, recognizing the value of diversity and celebrating achievements.

In this highly competitive and challenging business environment, more than ever, I want to thank our employees, sales and other business partners, as well as our Board of Directors. I also want to recognize the leadership and guidance of Edward Crawford, who served the Company for more than 53 years including 30 years as a Director, 15 years as President and 12 years as Chairman; and Graham Dawson, who served as a Director for more than 26 years — both of whom retired from the Board in 2001. Together, they've all made — and continue to make — Canada Life a strong and growing company, enabling us to continue to earn the support of our shareholders and policyholders. Ultimately, I thank you, our owners and customers, for your trust in our vibrant enterprise.

Da Nield

David A. Nield

1 Emphasizing financial performance

21% **top line** growth to $11.2 billion

20% increase in **shareholders' net income** to $427 million (excluding provision for September 11, 2001)

13.7% **ROE** (excluding provision for September 11, 2001)

Steady growth of **assets under administration**

Improved operating **expense** ratio

2 Leveraging core protection

Critical illness insurance: alliance with Best Doctors, Inc. of Boston (Canada)

Group life and health insurance: strong market share growth (United Kingdom, United States)

Group life insurance: new market penetration, 52 contracts (Brazil)

Group creditor life and disability insurance: market leadership reinforced with major contracts (Canada)

Individual life insurance: strong sales growth in traditional non-participating insurance (United States)

"Essential abilities"/disability insurance: flexible income protection benefit feature based on award winning product introduced in Germany (Republic of Ireland)

Universal life insurance: added product features to position for wealth management market (Canada)

Smart Life: new group life insurance product for small business (Brazil)

3 Increasing wealth management focus

60% sales growth **(Isle of Man)**

Special Savings Incentive Account: enhanced premium product (Republic of Ireland)

Generations: expanded segregated funds choice in investment product portfolio (Canada)

Annuity Growth Account: strong sales gains (United Kingdom)

"Unitized with Profits": unique concept for pension products (Germany)

Focus 15: continued high broker and marketplace ranking of investment fund (Republic of Ireland)

Pension administration: now servicing 4,000 plan members (Brazil)

Canada Life Securities Inc.: incorporated for mutual fund trades (Canada)

More than ever...

delivering on target

4 Pursuing value-enhancing acquisitions

Affinity group accidental death and dismemberment insurance (Canada)

Group life and health insurance (United States)

Pension administration business (Brazil)

5 Expanding distribution capability

New life **reinsurance channel** through Dublin (Republic of Ireland)-based subsidiary, Canada Life International Re Ltd.

1000 additional **broker alliances** (Germany)

30 insurance companies on ***kanetix.com***, offering car, property, travel and term life insurance (Canada)

Affinity group insurance/niche in sponsored markets (Canada)

6 Enhancing capital management

$1.5 billion short form base **shelf prospectus** (filed with Canadian and U.S. securities regulators), creating flexibility

Six million **preferred shares** issued by Canada Life Financial Corporation, raising $150 million of capital

Reinsurance of participating plan mortality, locking in favourable rates for policyholders while reducing capital requirements (Canada)

Canada Life's international management team blends wide-ranging experience and unyielding commitment, driven by a fundamental goal: to create significant value for our shareholders by consistently delivering strong financial and operational results through excellent execution of balanced strategy.

More than ever...

a world class management team

David A. Nield
B.Comm., F.S.A., F.C.I.A.
Chairman of the Board, President and Chief Executive Officer

William L. Acton
F.S.A., F.C.I.A.
Executive Vice-President and Director
Canadian Division

Diane Barsoski
B.Sc., B.Ed., M.Ed.
Vice-President and Director
Human Resources

Andrew D. Brands
LL.B.
Vice-President and General Counsel

Patrick G. Crowley
H.B.A., C.A.
Executive Vice-President and Chief Financial Officer

Ian Gilmour
B.Sc., F.F.A.
Vice-President and General Manager
United Kingdom Division

Roy W. Linden
LL.B.
Secretary and Chief Compliance Officer

Robert W. Morrison
C.F.A.
Vice-President and Chief Investment Officer

Tom Barry
F.I.A.
Managing Director
Irish Division

Ron Beettam
F.S.A., F.C.I.A.
Vice-President and Director
United States Division

Doron J. Cohen
Ph.D.
Vice-President and Chief Information Officer

Don A. Gallagher
M.Sc.
Vice-President and Director
Individual Investments and Pensions

Joseph A. Gilmour
F.S.A., F.C.I.A.
Vice-President and Director
International and Reinsurance Division

D. Allen Loney
F.I.A., F.C.I.A.
Vice-President and Chief Actuary

Robert M. Smithen
B.Sc., M.Sc., F.S.A., F.C.I.A.
Executive Vice-President

The Management's Discussion and Analysis provides an opportunity to discuss the financial performance and condition of Canada Life Financial Corporation ("the Company") for the year ended December 31, 2001 and to give some general indication of our expectations for future performance. Performance is reviewed both in total and for each of the primary business segments by which we manage the Company.

This report also describes the policies and procedures used for managing the risks related to Company activities. The Company must comply with the legal and regulatory requirements in all of the countries in which it operates. The principal regulator is the Office of the Superintendent of Financial Institutions, Canada. As a publicly listed company in Canada and the United States, it must also comply with the requirements of securities regulators and stock exchanges in each of those countries.

The Company's Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and, as a requirement of listing on the New York Stock Exchange, a reconciliation of certain Canadian GAAP financial information to United States GAAP has been prepared and is included in note 19 to the Consolidated Financial Statements. The Company manages its operations based on Canadian GAAP and the discussion and analysis contained in this report is based on Canadian GAAP.

This Management's Discussion and Analysis may contain forward-looking statements about strategies and expected financial results. Statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates" and similar expressions constitute forward-looking statements. In addition, any statements that may be made concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company actions, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about the future events and are subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the insurance industry generally. Such statements are not guarantees of future performance and the Company has no specific intentions to update these statements whether as a result of new information, future events or otherwise. Accordingly, the reader is cautioned against undue reliance on these forward-looking statements. Actual events and results could differ materially from those indicated in the forward-looking statements made by the Company due to, but not limited to, important factors such as general economic and market factors, interest rates, equity markets, business competition and changes in government regulations.

Changes Adopted in 2001 in the Method for the Valuation of Actuarial Liabilities

During the fourth quarter of 2001, the Company adopted the new Standards of Practice for the Valuation of Policy Liabilities of Life Insurers issued by the Canadian Institute of Actuaries (CIA), as well as the amendments to accounting recommendations issued by the Canadian Institute of Chartered Accountants (CICA). The new standards require insurance companies to use the Canadian Asset Liability Method (CALM) for calculating actuarial liabilities. The standards also result in a change in the basis for determining general fund actuarial liabilities related to certain segregated funds and group life and health insurance products. This change is being adopted as a change in accounting policy and has been applied retroactively with the restatement of the Consolidated Financial Statements for prior periods. The remaining impact of adopting CALM is a refinement to existing practice and is accordingly accounted for as a change in estimate and does not have a material impact on the Consolidated Financial Statements.

All current period and 2000 comparative amounts disclosed in this Management's Discussion and Analysis have been presented and described on the new basis.

For more detail on these changes see notes 2(a) and 3 to the Consolidated Financial Statements.

Financial Overview

(in millions of Canadian dollars except per share and percentage amounts)	**2001**	2000	$ Change	% Change
Performance measures				
Shareholders' net income	**$ 342**	$ 356	$ (14)	(4)
Shareholders' net income excluding provision for September 11, 2001	**427**	356	71	20
Basic and diluted earnings per common share	**2.13**	2.22	(0.09)	(4)
Basic and diluted earnings per common share excluding provision for September 11, 2001	**2.66**	2.22	0.44	20
Book value per common share	**20.19**	18.03	2.16	12
Return on common shareholders' equity	**11.1%**	12.9%		
MCCSR ratio[1]	**191%**	197%		
Dividends per common share	**$ 0.52**	$ 0.48	$ 0.04	8
Premiums, premium equivalents and new deposits				
General fund premiums	**$ 5,358**	$ 4,676	$ 682	15
Segregated funds deposits	**3,828**	3,692	136	4
ASO premium equivalents and other deposits[2]	**2,043**	882	1,161	132
	$ 11,229	$ 9,250	$ 1,979	21
Assets under administration				
General fund	**$ 34,951**	$ 32,736	$ 2,215	7
Segregated funds	**22,090**	22,383	(293)	(1)
	57,041	55,119	1,922	3
Other assets under administration[2]	**8,384**	8,138	246	3
	$ 65,425	$ 63,257	$ 2,168	3

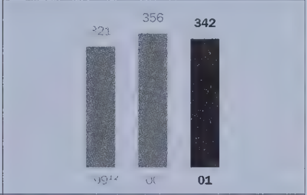
1 *Minimum Continuing Capital and Surplus Requirements (MCCSR) is calculated in accordance with capital standards set by the Company's primary regulator, the Office of the Superintendent of Financial Institutions, Canada. The MCCSR ratio has been restated for 2000 on a pro forma basis for the impact of the new Life Standards of Practice adopted in 2001.*

2 *Other deposits are included in other assets administered by the Company on behalf of third parties and are not included in general or segregated funds of the Company.*

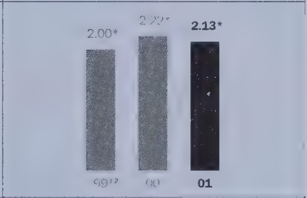
Measures of Financial Performance

(in millions of Canadian dollars except per share and percentage amounts)*

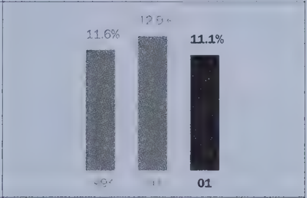
Shareholders' net income for the year was $342 million, down 4% from 2000. Shareholders' net income from core operations was $427 million up $99 million or 30% over the prior year, excluding the provision relating to September 11, 2001 and the results of operations disposed of in 2000.



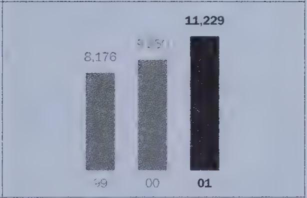
Earnings per common share for 2001 was $2.13. Excluding the provision relating to September 11, 2001, earnings per common share was $2.66.



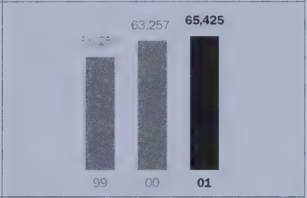
Return on common shareholders' equity for 2001 was 11.1% compared to 12.9% in 2000. Excluding the September 11, 2001 provision, return on common shareholders' equity was 13.7%, within our target range of 13%–14%.



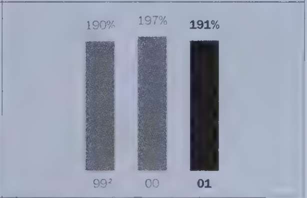
Total premiums, premium equivalents and new deposits grew to $11,229 million, an increase of 21% over 2000.



Assets under administration rose to $65,425 million, up 3% over 2000.



The capital adequacy ratio used for regulatory purposes (MCCSR) was 191% compared to 197% on a pro forma basis, at the end of the prior year, within our target of 175%–200% and well ahead of minimum regulatory capital requirements.



1 *The Company demutualized on November 4, 1999. For comparative purposes, the 1999 shareholders' net income has been presented on a pro forma basis assuming the total net income in 1999 was attributable to shareholders.*

2 *The restatements made as a result of adopting the new Life Standards of Practice issued by the CIA have been retroactively applied as of the third quarter of 2001 to the first quarter of 2000. The 1999 comparatives remain on the prior valuation basis. For further information see notes 2(a) and 3 to the Consolidated Financial Statements.*

Factors Affecting Performance and Measurement

There are a number of factors that contribute to the Company's performance. These include, but are not limited to, sources of business growth, the emergence of profits under actuarial methods using Canadian GAAP and foreign currency fluctuations. In addition, embedded value is a significant measure of the Company's economic net worth. All of these are important considerations when measuring Company performance.

Products and Business Growth

In each of its principal markets, the Company offers products on both a general fund and a segregated funds basis. In addition, the Company offers asset management services to third parties. The measurement of total growth takes into account growth in general fund premiums, segregated funds deposits, administrative services only (ASO) premium equivalents, and a variety of other deposits under asset administration arrangements.

The financial risks associated with general fund products are primarily borne by the Company. Premiums received and investment income earned, less policyholder benefits paid or provided for, and other expenses, are reflected in the Consolidated Statements of Net Income for the general fund of the Company. Within the general fund, products are sold on either a participating or non-participating basis. Participating business, which means that the policyholders are eligible to receive profits from this business in the form of policyholder dividends, is kept in separately identified accounts. Shareholders' net income is comprised of the earnings from the non-participating business, including an amount transferred from the participating account.

Segregated funds products are supported by assets that are separate from, and not available to satisfy the liabilities of, the general fund. Segregated funds deposits, investment income and payments to policyholders (subject to the possible effect of any guarantees) are not reported in the income statement of the general fund. The fee income earned for managing segregated funds assets is included in the income statement of the general fund. Unit-linked products sold in the United Kingdom and the Republic of Ireland, as well as separate account products sold in the United States, are included in the definition of segregated funds.

Other assets under administration and the deposits received under these arrangements also generate fee income, which is included in the Consolidated Statements of Net Income of the general fund.

Impact of Foreign Currency Fluctuations

Financial information is prepared on a local currency basis using Canadian GAAP and is then translated into Canadian dollars for reporting purposes. As a multinational company with significant self-sustaining operations outside of Canada, financial information is impacted by fluctuations in foreign currencies against the Canadian dollar. As at December 31, 2001, the values of the U.S. dollar, the British pound and the Irish pound (Euro), the most significant currencies in which we operate, had all strengthened against the Canadian dollar relative to the prior year-end.

Gains and losses arising as a result of financial statement currency translation are unrealized. These, and the effects of forward foreign exchange agreements that are used to hedge the exposure of the Company's investments in foreign operations, are recorded as a direct adjustment to the Company's Currency Translation Account (CTA), a component of equity. The impact of the changes in currency rates in 2001 relative to 2000 on certain selected financial information is set out in the following table:

Impact of Foreign Currency Fluctuations in 2001 Compared with 2000

(in millions of Canadian dollars except percentage amounts)

	Relative to Canadian dollar		Increase (decrease)							
	% Change in average currency rate	% Change in year-end currency rate	General fund premiums	Segregated funds deposits	Total	Shareholders' net income	General fund assets	Segregated funds assets	Total	Shareholders' equity (CTA)
British pound	**(0.4)%**	**3.6%**	$ (5)	$ (8)	$ (13)	$ (1)	$ 253	$ 381	$ 634	$ 39
Irish pound[1] *(Euro)*	**1.1%**	**0.6%**	4	5	9	1	11	12	23	7
U.S. dollar and other	**4.0%**	**6.0%**	73	4	77	1	670	47	717	44
Total			$ 72	$ 1	$ 73	$ 1	$ 934	$ 440	$ 1,374	$ 90

[1] *The Republic of Ireland adopted the Euro as its official currency effective January 1, 2002. The Company's investment and financial systems have been successfully converted to transact and report business using the Euro.*

Embedded Value

Embedded value is a measure of the economic net worth of a life insurance company. It consists of the present value of projected future after-tax distributable net income generated from the current in-force business, plus the market value of shareholders' equity. It excludes value attributed to, or expenses associated with, obtaining future new business. Embedded value varies from the book value of a company, which is calculated in accordance with Canadian GAAP and includes conservative provisions for adverse deviations.

The Company disclosed its embedded value as of December 31, 2000 at $5.0 billion or 161% of shareholders' equity during the second quarter of 2001. As at December 31, 2001, our analysis of the embedded value of new business added during 2001 is $159 million, up 24% from the $128 million embedded value of new business added during 2000 and reflects the strong growth in new business levels this year. The Company expects to release full information concerning its embedded value as at December 31, 2001 during the second quarter of 2002.

Income Statement Review

Summary Statement of Net Income

(in millions of Canadian dollars)	**2001**	2000	$ Change	% Change
Revenues				
Premiums	**$ 5,358**	$ 4,676	$ 682	15
Net investment income	**2,241**	2,306	(65)	(3)
Fee and other income	**465**	479	(14)	(3)
	8,064	7,461	603	8
Expenditures				
Policyholders' benefits	**6,190**	5,631	559	10
Other expenses	**1,383**	1,283	100	8
	7,573	6,914	659	10
Net income before income taxes	**491**	547	(56)	(10)
Income taxes	**153**	195	(42)	(22)
Net income	**338**	352	(14)	(4)
Participating policyholders' net loss	**(4)**	(4)	—	—
Shareholders' net income	**$ 342**	$ 356	$ (14)	(4)
Pro forma shareholders' net income before the following:	**$ 427**	$ 328	$ 99	30
Provision for expected claims arising from September 11, 2001	**(85)**	—	(85)	—
Disposed of operations[1]	**—**	28	(28)	(100)
Shareholders' net income	**$ 342**	$ 356	$ (14)	(4)

[1] *Comprised of the gain on sale and results of general insurance operations disposed of in December 2000.*

Shareholders' net income was $427 million before a net provision of $85 million related to expected claims arising from the September 11, 2001 terrorist attack in the United States. This is an increase of $99 million, or 30% over the year ended December 31, 2000 (excluding the general insurance operations disposed of in 2000). The increase in shareholders' net income before the provision was a result of growth in new and existing business across the Company, increases in net investment spreads and reduced income tax expense in 2001. Income tax expense in 2000 included the effect of a write-down of future tax assets related to statutory tax rate reductions. Favourable factors in 2001 have been partially offset by the negative impact of global stock market declines as market indices were at much lower levels throughout most of 2001. The impact of the stock market declines is reflected through several line items in the Consolidated Statements of Net Income including fee income, net investment income and changes in actuarial liabilities.

The results of operations have been impacted by the effect of expected claims arising from the terrorist attack of September 11, 2001 for which we have recorded an $85 million provision net of reinsurance recoveries and tax. This provision is to cover estimated exposure on our special risk reinsurance (including workers compensation and catastrophe coverage) contracts with other insurers and reinsurers. We have provided $606 million for these losses and expect to recover $415 million from reinsurers and a further $100 million from the Company's own catastrophe coverage for a net provision of $91 million. We have added a further $40 million to cover uncertainties for a total pre-tax provision of $131 million.

Impact of September 11, 2001

(in millions of Canadian dollars)	
Gross exposure	$ 606
Reinsurance recoveries	(415)
Exposure net of recoveries	191
Catastrophe coverage	(100)
Net exposure	91
Additional provision	40
Total provision	131
Income tax effect	(46)
Net income impact	$ 85

Premiums, Premium Equivalents and New Deposits

(in millions of Canadian dollars)	**2001**	2000	$ Change	% Change
Participating insurance and annuities	**$ 768**	$ 786	$ (18)	(2)
Non-participating:				
Annuities	**2,272**	1,742	530	30
Individual life and health insurance	**516**	480	36	8
Group life and health insurance	**1,633**	1,391	242	17
Reinsurance	**169**	153	16	10
General insurance	**—**	124	(124)	(100)
General fund premiums	**5,358**	4,676	682	15
Segregated funds deposits	**3,828**	3,692	136	4
ASO premium equivalents and other deposits	**2,043**	882	1,161	132
Total	**$ 11,229**	$ 9,250	$ 1,979	21

General fund premium income increased by $682 million or 15% from 2000 with strong sales in annuities and group life and health insurance across the Company. As a result of volatile global stock markets, consumer preferences shifted from equity based products to fixed income products. Payout annuity sales were particularly strong in Canada and the United Kingdom. Annuity sales in the United States increased by $210 million as a result of higher structured settlement and guaranteed investment contract sales. Premiums from group life and health insurance rose as a result of strong growth in renewal business in both Canada and the United Kingdom and an increase of $105 million in premiums in the United States as a result of the group sales force expansion that began in 1999.

Segregated funds deposits increased by $136 million or 4% over 2000. The increase in segregated funds deposits was mostly due to the $630 million increase in deposits reported in our Isle of Man subsidiary in the United Kingdom. We experienced a decline in segregated funds deposits in Canada year-over-year as consumer preferences shifted away from equity based products.

The group savings business acquired from a Canadian chartered bank on December 31, 2000 has contributed favourably to the increase in other deposits.

Net Investment Income

(in millions of Canadian dollars)	2001	2000	$ Change	% Change
Bonds[1]	$ 1,371	$ 1,268	$ 103	8
Mortgages[1]	632	614	18	3
Common and preferred stocks[2]	136	203	(67)	(33)
Real estate[2]	81	80	1	1
Policy loans	75	70	5	7
Cash, cash equivalents, and short-term investments	56	83	(27)	(33)
Other	(57)	34	(91)	(268)
Total investment income	2,294	2,352	(58)	(2)
Less: investment expenses	53	46	7	15
Net investment income	$ 2,241	$ 2,306	$ (65)	(3)

1 *Includes amortized realized gains as follows: bonds $102 million ($63 million in 2000); mortgages $11 million ($10 million in 2000).*

2 *Includes amortized realized and unrealized gains as follows: common and preferred stocks $78 million ($153 million in 2000); and real estate $20 million ($20 million in 2000).*

Net investment income of $2,241 million decreased marginally from $2,306 million in 2000. The impact of stock market declines, particularly the decline in market value of certain instruments backing U.K. equity return related insurance products, was the primary contributor to the reduction in net investment income. This was partially offset by corresponding changes in the increase in actuarial liabilities, by the positive impact of foreign currency fluctuations and increased income in bonds and mortgages. The overall rate of investment income earned on general fund invested assets was 7.3%, compared to 8.2% in 2000.

Investment income from bonds rose to $1,371 million, up 8% over 2000. More funds were invested in bonds and at higher rates as a result of our yield enhancement strategies. In addition, the declining interest rate environment contributed to an increase in amortization of deferred realized gains.

Favourable reinvestment rates for mortgages during 2001, along with an increase in funds invested in mortgages, contributed to the $18 million increase in investment income from mortgages over 2000.

Investment income from common and preferred stocks of $136 million was down $67 million from 2000 as a result of unfavourable performance in global stock markets. Amortization of net realized and unrealized gains decreased to $78 million in 2001, down $75 million from 2000. During 2001, stock markets in the principal countries in which the Company operates had negative index returns. The TSE 300 Index in Canada experienced a 13.9% decrease in 2001, a substantial drop from the previous year's increase of 6.2%. The U.S. Standard and Poor's 500 Index dropped 13.0% following a 10.1% decrease in 2000. The U.K. FTSE 100 had losses of 16.2% in 2001 versus a 10.2% decrease in the previous year. The Irish ISEQ decreased 0.3% in 2001, a significant drop from a 14.0% rise in 2000.

Investment income from cash, cash equivalents, and short-term investments dropped to $56 million in 2001 from $83 million in 2000 as short-term interest rates declined substantially throughout 2001.

Investment income from other investments dropped $91 million from 2000 primarily as a result of a decline in market value for investments supporting certain U.K. equity based insurance products. The change in value is offset by a corresponding decrease in actuarial liabilities.

Fee and Other Income

Fee income is earned principally from the management of segregated funds assets and is generally based on a percentage of the market values of the assets under administration. The Company also earns fee income from the administration of unit trusts in the United Kingdom, from investment management services provided to third parties and from administrative services (such as claims administration) provided to employer and other groups. Excluding the gain in 2000 from the sale of our subsidiary, Canada Life Casualty Insurance Company, fee and other income increased $4 million over 2000 as a result of increased fees earned on the group savings business acquired in Canada at the end of 2000 and despite the lower market values on segregated funds assets in Canada, the United Kingdom and the United States.

Policyholders' Benefits

(in millions of Canadian dollars)	**2001**	2000	$ Change	% Change
Life, health and general benefits	**$ 1,987**	$ 1,670	$ 317	19
Annuity payments	**1,246**	1,128	118	10
Maturities, surrender payments and other	**1,680**	1,837	(157)	(9)
Participating policyholder dividends	**305**	289	16	6
Payments to policyholders and beneficiaries	**5,218**	4,924	294	6
Increase in actuarial liabilities	**972**	707	265	37
Policyholders' benefits	**$ 6,190**	$ 5,631	$ 559	10

a) Payments to Policyholders and Beneficiaries

Payments to policyholders and beneficiaries rose by $294 million or 6% over 2000. Claim provisions increased as a result of the net provision taken on reinsurance coverage relating to expected claims from September 11, 2001, compensation payments made to policyholders for prior pension product sales in the United Kingdom, and higher group life and health insurance claims in the United States as a result of the increase in business in that operation. These increases were partially offset by lower payments for guaranteed annuity products in Canada.

When the Company makes payments to policyholders and beneficiaries, the amount of any related actuarial liability is reduced, producing a whole or partial offset in total policyholder benefits in the Consolidated Statements of Net Income.

b) Increase in Actuarial Liabilities

The increase in actuarial liabilities of $972 million for 2001 was $265 million higher than the increase in actuarial liabilities in 2000. The approximate breakdown of the increase in actuarial liabilities is as follows:

(in millions of Canadian dollars)	Variance to prior year
Increase in general fund premiums	$ 682
Increase in payments to policyholders and beneficiaries	(294)
Refinement in calculating actuarial liabilities	(16)
Other	(107)
Change in the increase in actuarial liabilities year over year	$ 265

Changes in actuarial liabilities from year to year are a function of business volumes, underlying experience factors, changes in assumptions and refinements in the calculation of these liabilities. Actuarial liabilities were significantly increased in 2001 as a result of the strong growth in new and existing business. When payments are made to policyholders and beneficiaries, the Company's obligation under the policy is either partially or completely fulfilled and, consequently, the actuarial liability held at the time of the claim or payment is released. Different products have different actuarial liability requirements, and depending on expected future

payments (which vary between protection and wealth management products), a change in claims or premiums by $1 does not always result in a $1 change in actuarial liabilities. The refinements in calculating actuarial liabilities are adjustments made by the Company's actuaries as a result of changes in expected future experience arising from analysis of recent actual experience.

Further information regarding the changes in actuarial liabilities is provided in note 7 to the Consolidated Financial Statements.

Other Expenses

(in millions of Canadian dollars)	**2001**	2000	$ Change	% Change
Commissions	**$ 461**	$ 409	$ 52	13
General and other expenses	**897**	850	47	6
Goodwill expense	**25**	24	1	4
	$ 1,383	$ 1,283	$ 100	8

As a result of strong sales across all of our operating divisions, commissions increased by $52 million, or 13% from 2000.

General and other expenses rose by $47 million or 6% over 2000. Expenses increased in the United Kingdom and the United States and were reduced in Canada. Expenses in the United Kingdom were higher as a result of new business growth, new investment in information systems supporting customer service, and higher expenses relating to prior pension product sales. Increases in the United States were a result of the group sales force expansion, increased group business volumes and to a lesser extent, the expanded marketing of individual variable products. These increases were partially offset by general expense reductions in Canada as a result of the completion in 2000 of integrating the acquired Crown Life operations, completion of a major information system development in the individual life business, and a reduction in provisions for retiree benefit costs.

Goodwill expense of $25 million was $1 million more than 2000 as a result of an acquisition in 2001. With the adoption of new accounting recommendations for business combinations effective January 1, 2002, goodwill will no longer be amortized; rather, it will be written off if and when it is determined that an impairment exists.

Income Taxes

The Company's effective tax rate decreased to 31% in 2001, down from 36% in 2000. The 2000 effective tax rate was higher primarily as a result of a write-down of our future tax asset following proposed reductions in Canadian federal and Ontario provincial statutory tax rates.

Quarterly Results

(in millions of Canadian dollars except per share amounts)					**2001**					2000
	Q4	**Q3**	**Q2**	**Q1**	**Total**	Q4	Q3	Q2	Q1	Total
Total revenue	**$ 2,159**	**$ 1,904**	**$ 2,019**	**$ 1,982**	**$ 8,064**	$ 1,913	$ 1,879	$ 1,850	$ 1,819	$ 7,461
Shareholders' net income	**$ 38**	**$ 91**	**$ 114**	**$ 99**	**$ 342**	$ 95	$ 94	$ 96	$ 71	$ 356
Basic and diluted earnings per common share	**$ 0.23**	**$ 0.57**	**$ 0.71**	**$ 0.62**	**$ 2.13**	$ 0.59	$ 0.59	$ 0.60	$ 0.44	$ 2.22
Assets under administration	**$ 65,425**	**$ 62,606**	**$ 62,440**	**$ 62,799**		$ 63,257	$ 58,473	$ 56,802	$ 56,826	

Shareholders' net income in the third and fourth quarters of 2001 was impacted by the $85 million provision net of tax taken in respect of the estimate for claims arising from September 11 for our special risk reinsurance contracts. Of the $85 million provision, $15 million was taken in the third quarter and $70 million in the fourth quarter. Excluding these provisions, shareholders' net income for the third and fourth quarter respectively was $106 million and $108 million.

Performance by Business Segment

The Company's operations are broadly organized along geographic market lines and we conduct our business through operating divisions in Canada, the United Kingdom, the United States, the Republic of Ireland and through a globally oriented International and Reinsurance Division. Each operating division focuses on its defined market, with local responsibility for product development, marketing, distribution and pricing functions. Each division is required to meet corporate-wide strategic, business growth and expense objectives and to adhere to corporate risk management policies and guidelines. In addition, a corporate group oversees the management of invested assets, provides certain administrative services for each division and is responsible for capital management. Capital is allocated to support the business within each division using an MCCSR-based allocation model. Income on that capital is credited to each division.

Divisional Financial Highlights

(in millions of Canadian dollars)

2001	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Total
Shareholders' net income	**$ 161**	**$ 122**	**$ 87**	**$ 34**	**$ (68)**	**$ 342[1]**
Return on common shareholders' equity	**15.6%**	**14.8%**	**13.4%**	**16.7%**	**(51.7)%**	**11.1%**
Premiums, premium equivalents and new deposits						
General fund premiums	**$ 1,893**	**$ 1,079**	**$ 1,671**	**$ 391**	**$ 324**	**$ 5,358**
Segregated funds deposits	**1,395**	**1,888**	**102**	**442**	**1**	**3,828**
ASO premium equivalents and other deposits	**1,960**	**83**	**—**	**—**	**—**	**2,043**
	$ 5,248	**$ 3,050**	**$ 1,773**	**$ 833**	**$ 325**	**$ 11,229**
Assets under administration						
General fund	**$ 14,031**	**$ 7,421**	**$ 10,942**	**$ 1,609**	**$ 948**	**$ 34,951**
Segregated funds	**8,118**	**11,053**	**825**	**2,090**	**4**	**22,090**
Other assets	**7,756**	**615**	**—**	**—**	**13**	**8,384**
	$ 29,905	**$ 19,089**	**$ 11,767**	**$ 3,699**	**$ 965**	**$ 65,425**
2000						
Shareholders' net income	$ 123	$ 112	$ 82	$ 22	$ 17	$ 356[1]
Return on common shareholders' equity	12.3%	13.1%	12.9%	13.7%	16.4%	12.9%
Premiums, premium equivalents and new deposits						
General fund premiums	$ 1,749	$ 955	$ 1,351	$ 344	$ 277	$ 4,676
Segregated funds deposits	1,909	1,258	115	407	3	3,692
ASO premium equivalents and other deposits	775	107	—	—	—	882
	$ 4,433	$ 2,320	$ 1,466	$ 751	$ 280	$ 9,250
Assets under administration						
General fund	$ 13,970	$ 6,855	$ 9,870	$ 1,300	$ 741	$ 32,736
Segregated funds	8,326	11,219	854	1,980	4	22,383
Other assets	7,470	668	—	—	—	8,138
	$ 29,766	$ 18,742	$ 10,724	$ 3,280	$ 745	$ 63,257

[1] *Total shareholders' net income for 2001 includes $6 million (nil for 2000) from the Corporate Division.*

Divisional Percentage of Total

	Shareholders' net income		Premiums, premium equivalents and new deposits		Assets under administration	
	2001	2000	**2001**	2000	**2001**	2000
Canada	**47%**	35%	**47%**	48%	**46%**	47%
United Kingdom	**36%**	31%	**27%**	25%	**29%**	30%
United States	**25%**	23%	**16%**	16%	**18%**	17%
Republic of Ireland	**10%**	6%	**7%**	8%	**6%**	5%
International and Reinsurance	**(20)%**	5%	**3%**	3%	**1%**	1%
Corporate	**2%**	—	**—**	—	**—**	—
	100%	100%	**100%**	100%	**100%**	100%

Canadian Division

The Canadian Division offers a wide range of protection and wealth management products and related services through three distinct business units: individual life and health insurance, group life and health insurance, and investments and pensions. The products and related services that we offer through this division are as follows:

Highlights

- Shareholders' net income increased to $161 million, up 31% over 2000.
- 18% increase in premiums and new deposits compared to 2000.
- Enhanced our position as a market leader in the creditor business by adding the new group creditor life and disability insurance of a large Canadian financial institution.
- Recognition by Next 21 for RepNet, our innovative e-Business solution that provides sales and customer service support to distributors of individual insurance and investment products.
- The launch of a universal life product for high net worth individuals.
- Operating efficiencies resulting in a reduction in general expenses realized from the successful completion in 2000 of the Crown Life integration and replacement of the individual insurance administration system.

Protection

Individual Life and Health Insurance

Term Life
Universal Life
Participating Life
Disability
Critical Illness

Group Life and Health Insurance

Life
Disability
Critical Illness
Accidental Death and Dismemberment
Dental
Creditor Life
Creditor Health
Creditor Job Loss
Expatriate Coverage
Extended Health Care Plans

Wealth Management

Investments and Pensions

Products:

Retirement Savings Plans
Non Registered Savings Programs
Payout Annuities
Fixed Annuities
Segregated Funds

Administrative Services:

Employee Stock Purchase and Options Plans
Investment Management Services

The Division operates across Canada in five individual marketing centres, 12 group sales offices, 15 individual sales offices and six regional group claims and services offices. Our products are marketed through independent brokers, independent financial advisors, managing general agents, national accounts and pension and benefit consultants.

Financial Performance

Shareholders' net income of $161 million grew by $66 million or 69% over 2000, excluding disposed of operations. Including disposed of operations, net income grew by $38 million or 31% over last year. Strong sales, improved operating efficiencies, and the full impact of the integration of the Crown Life acquisition were the key contributors to growth in net income. These increases were partially offset by the impact of the stock markets on the general fund.

Canadian Division's Shareholders' Net Income

(in millions of Canadian dollars)	**2001**	2000	$ Change	% Change
Individual life and health insurance	**$ 45**	$ 33	$ 12	36
Group life and health insurance	**33**	25	8	32
Investments and pensions	**83**	37	46	124
Canadian Division's shareholders' net income from continuing operations	**$ 161**	$ 95	$ 66	69
Disposed of operations[1]	**—**	28	(28)	(100)
Canadian Division's shareholders' net income	**$ 161**	$ 123	$ 38	31

[1] 2000 results included $10 million of shareholders' net income from operations and an $18 million after-tax gain on the sale of our general insurance subsidiary on December 31, 2000.

Summary Statement of Operations

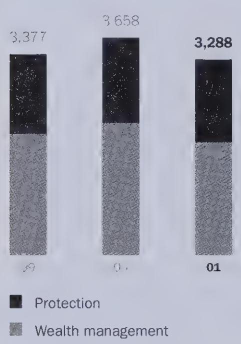
(in millions of Canadian dollars)	**2001**	2000[1]	$ Change	% Change
Revenues				
Premiums	**$ 1,893**	$ 1,749	$ 144	8
Net investment income	**970**	995	(25)	(3)
Fee and other income	**177**	177	—	—
	3,040	2,921	119	4
Expenditures				
Policyholder benefits	**2,183**	2,096	87	4
Commissions	**175**	155	20	13
General expenses	**323**	348	(25)	(7)
Other	**74**	77	(3)	(4)
	2,755	2,676	79	3
Net income before income taxes	**285**	245	40	16
Income taxes	**123**	122	1	1
Net income	**162**	123	39	32
Participating policyholders' net income	**1**	—	1	—
Shareholders' net income	**$ 161**	$ 123	$ 38	31
Return on shareholders' equity	**15.6%**	12.3%		

[1] 2000 results included $124 million of premiums, $8 million of investment income, $18 million gain on sale in other income, $114 million of expenditures and $8 million of income taxes, resulting in $28 million of shareholders' net income from disposed of operations.

Premiums, Premium Equivalents and New Deposits

(in millions of Canadian dollars)	**2001**	2000
Annuities	**$ 499**	$ 312
Individual life and health insurance	**548**	547
Group life and health insurance	**846**	766
General insurance	**—**	124
General fund premiums	**1,893**	1,749
Segregated funds deposits	**1,395**	1,909
	3,288	3,658
Other deposits	**1,582**	410
ASO premium equivalents	**378**	365
	$ 5,248	$ 4,433

General fund premiums and segregated funds deposits
Canada
(in millions of Canadian dollars)



General fund premiums of $1,893 million grew $268 million or 16% from 2000, excluding premiums from disposed of operations, primarily due to strong guaranteed and payout annuities, non-participating life and group life and health insurance sales.

Segregated funds deposits of $1,395 million were down $514 million from 2000. Excluding conversions between segregated funds products, which were particularly high in 2000, deposits were down $103 million as customer preference shifted away from equity based products.

Other deposits grew by $1,172 million over 2000. These deposits primarily represent customer contributions to group retirement savings plans and non-registered savings programs in the group savings business acquired from a Canadian chartered bank in December 2000.

Net Investment Income, Fee Income and Other Income

Net investment income was down by $25 million or 3% from 2000 due to the decline in stock markets, most impacted by the TSE 300 decline of 13.9% year-over-year.

Fee income, excluding the 2000 gain from disposed of operations, rose by $18 million primarily due to growth in the acquired group savings and ASO businesses. This was partially offset by a reduction in segregated funds fee income resulting from the lower market values of segregated funds assets in 2001.

Expenditures

Policyholder benefits increased by $87 million or 4% from 2000. This is attributable to an increase in the change in actuarial liabilities of $249 million, partially offset by a reduction in payments to policyholders of $162 million, principally due to the disposed of general insurance business. The change in actuarial liabilities was largely a result of higher premium income and lower payments to policyholders, primarily in guaranteed annuity products.

Commission expenses grew $20 million or 13% over 2000 consistent with strong growth in individual life and group life and health premiums. This increase was partially offset by lower commissions on segregated funds deposits.

General expenses were down by $25 million or 7% from 2000. This reflects the full year's impact of the integration of the Crown Life acquisition, completion of a major system replacement in our individual insurance operations and a reduction in provisions for retiree benefit costs. This decrease is partly offset by expenditures to integrate the group savings business acquired in December 2000. Ongoing general expenses related to this business included in 2001 are partially offset by the expenses of the general insurance business that was sold in 2000.

The effective tax rate on net income has declined by 7% due to income tax provisions of $31 million in 2000, which reflected the cumulative effect of federal and provincial statutory tax rate reductions on future tax assets.

Products and Services

Individual Life and Health Insurance

Premiums, net of reinsurance, remained unchanged from 2000 levels, as premium growth in the non-participating business was offset by the effect of reinsuring a portion of our participating business. New business from non-participating life products grew 8% from 2000, primarily due to the introduction of a universal life product targeted at high net worth individuals. This successful product launch contributed to increasing our market share to 5.9% at September 30, 2001 from 4.6% at the end of 2000.

Earnings increased by $12 million to $45 million primarily due to strong sales, favourable morbidity experience and operational efficiencies resulting from the completion of both the integration of Crown Life business and the administration system replacement.

An innovative feature added to the critical illness product has strengthened our market position and provided a competitive advantage. The added feature provides customers access to expert medical diagnosis assessments.

Group Life and Health Insurance

Premiums rose by $80 million or 10% over 2000 primarily due to increased business volumes and strong renewal in group life and disability insurance.

Earnings increased by $8 million to $33 million due to recovery of margins in the employee benefit businesses, partially offset by poor morbidity experience.

We acquired an affinity operation with $15 million of annual premiums in the accidental death and dismemberment insurance line of business. This acquisition expands our distribution capabilities within our direct marketing operation.

A new online service for group benefit clients and their employees was introduced in Canada. This Internet-based initiative enables insured individuals to track claims payments online, reducing call centre inquiries and improving operating efficiencies.

Investments and Pensions

Premiums grew by $187 million or 60% over 2000, due to strong sales primarily in guaranteed and payout annuity products. The premium increases in the guaranteed annuities reflected customers' preference for fixed income products in response to the poor stock market performance. Payout annuity premiums grew as a result of our competitively priced products and the introduction of a web-based quotation system that provides our intermediaries better access to our products. Our market share in the payout annuities business increased from 12% as at December 31, 2000 to 19% on September 30, 2001.

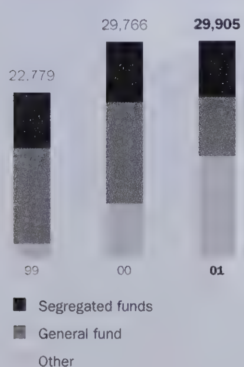
Fee and other income increased by $7 million or 5% over the prior year due to the addition in 2001 of fee income from the group savings business acquired in December 2000. This was partially offset by reduced fee income from segregated funds due to the decline in stock markets throughout the year.

Segregated funds deposits, excluding conversions between segregated funds products in 2000, fell by $103 million or 7% over 2000 as customer preferences shifted to fixed income products.

Other deposits increased by $1,172 million to $1,582 million primarily due to the addition of the group savings business acquired in December 2000.

Earnings increased by $46 million to $83 million. Excluding the one-time charge in 2000 for a reserve for integration expenses associated with the growth of our wealth management business, earnings increased by $30 million. This is attributable to strong results in the payout annuity business and the earnings impact of the group savings business acquired in December 2000.

Assets under administration
Canada
(in millions of Canadian dollars)



Assets Under Administration

(in millions of Canadian dollars)	**2001**	2000
General fund	**$ 14,031**	$ 13,970
Segregated funds	**8,118**	8,326
Other assets[1]	**7,756**	7,470
	$ 29,905	$ 29,766

[1] *Other assets under administration represent group-sponsored retirement savings plans, non-registered savings programs and other investments under management.*

Assets under administration of $29,905 million increased by $139 million compared to last year. General fund assets increased by $61 million primarily due to growth in the individual insurance operations. Segregated funds assets declined by $208 million consistent with the decline in stock markets. Other assets under administration rose due to growth in the group savings business acquired in December 2000. The significant improvement in customer service and customer satisfaction in the year resulted in higher than expected customer retention of this business.

Divisional Outlook

Enhanced customer satisfaction and sustained profitable growth are the key priorities for the Canadian Division in 2002, something we plan to achieve through our ongoing commitment to process improvement and business excellence. Another key focus for the Division relates to technology and ensuring we maximize the value of these investments. Significant investments in new systems are planned in two of our major businesses, wealth management and group life and health insurance. In the wealth management operations, this investment will lead to better integration of our product and service offerings within our trust and insurance structures and is expected to result in operating efficiencies and reduced delivery time of new products to market. In the group life and health operations, we have commenced our conversion to a new web-enabled claims and administration system. We expect this project to deliver increased operating efficiencies and enhanced customer service.

To support our expanded product offerings better, we established Canada Life Securities Inc., a member of the Investment Dealers Association of Canada, in the fourth quarter of 2001, and we intend to establish a trust company by the end of 2002. Consistent with our commitment to offer our clients a broad range of investment options, we expanded our fund offerings in both our Flex and Generations products. In 2002, we intend to develop investment products structured to deliver low volatility combined with diversification in the long term. Equally important will be our focus on expanding our distribution channels as well as further developing current channels to increase sales.

With the successful replacement of our major administration system in the first quarter of 2001, the 2002 focus in our individual insurance operations will be to continue to realize operating efficiencies, to deliver enhanced customer service and to continue to grow our non-participating line of business.

In 2001, Kanetix Ltd., our e-commerce operating subsidiary, commenced operations in Quebec, added travel insurance to our product offerings, increased the number of insurance companies participating in our marketplace and expanded our marketing partners to include three major Internet service providers. These developments have solidified our leadership position in the Internet marketplace for insurance. We anticipate exciting growth opportunities in this emerging distribution channel.

United Kingdom Division

The U.K. Division offers a wide range of protection and wealth management products and related services in three main businesses: individual life and health insurance, group life and health insurance, and wealth management and retirement protection:

Highlights

- Shareholders' net income increased to $122 million, up 9% over 2000.
- Significant re-engineering and investment in our customer support and information systems continued in 2001.
- Focus on wealth management continued as the expansion of the Isle of Man operations resulted in premiums and deposits increasing to $1,210 million, up 60%.
- Distribution capability continued to expand, as evidenced by the 52% growth in new business premiums sold by an increasing number of IFAs.
- 30% increase in premiums from group payout annuities.
- 19% increase in premiums from group life and disability income protection insurance.

Protection		Wealth Management
Individual Life and Health Insurance	**Group Life and Health Insurance**	**Investments and Pensions**
Term Life	Term Life	Immediate and Deferred Individual Annuities
Long Term Disability	Disability Income	Group Payout Annuities for individuals retiring from company sponsored pension plans
Critical Illness		Segregated Funds
		Unit Trusts

These businesses service customers through two major distribution channels: Independent Financial Advisors (IFAs) and the Financial Consultancy Division (FCD). Offshore wealth management products are mainly sold by IFAs through the Division's subsidiary, Canada Life International Limited, located on the Isle of Man. The Division carries on business across the United Kingdom and has 17 business centres, three regional sales offices and three group sales offices.

Financial Performance

Shareholders' net income increased to $122 million for the year, a 9% increase over 2000. Contributing to this increase were improvements in net investment spreads in the individual and group payout annuity business, improved group health morbidity experience and the relative strengthening of the actuarial liabilities in 2000 as compared to 2001. Partially offsetting these positives was a reduction in fee income derived from the management of the Division's segregated funds assets. The market values of the segregated assets fell with the sharp declines in the stock markets in 2001 particularly the U.K. FTSE 100, which declined 16.2% in the year. Expenses increased partly because of the continued significant investment in many projects designed to improve efficiency and customer service.

U.K. Division's Shareholders' Net Income

(in millions of Canadian dollars)	**2001**	2000	$ Change	% Change
Individual life and health insurance	**$ (6)**	$ (16)	$ 10	63
Group life and health insurance	**18**	(6)	24	400
Investments and pensions	**110**	134	(24)	(18)
U.K. Division's shareholders' net income	**$ 122**	$ 112	$ 10	9

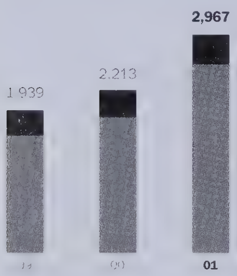
Summary Statement of Operations

(in millions of Canadian dollars)	**2001**	2000	$ Change	% Change
Revenues				
Premiums	**$ 1,079**	$ 955	$ 124	13
Net investment income	**422**	475	(53)	(11)
Fee and other income	**208**	221	(13)	(6)
	1,709	1,651	58	4
Expenditures				
Policyholder benefits	**1,270**	1,243	27	2
Commissions	**66**	73	(7)	(10)
General expenses	**206**	172	34	20
Other	**20**	20	—	—
	1,562	1,508	54	4
Net income before income taxes	**147**	143	4	3
Income taxes	**25**	31	(6)	(19)
Shareholders' net income	**$ 122**	$ 112	$ 10	9
Return on shareholders' equity	**14.8%**	13.1%		

Premiums, Premium Equivalents and New Deposits

(in millions of Canadian dollars)	**2001**	2000
Annuities	**$ 674**	$ 585
Individual life and health insurance	**159**	164
Group life and health insurance	**246**	206
General fund premiums	**1,079**	955
Segregated funds deposits	**1,888**	1,258
	2,967	2,213
Other deposits	**83**	107
	$ 3,050	$ 2,320

General fund premiums and segregated funds deposits
United Kingdom
(in millions of Canadian dollars)



Protection
Wealth management

General fund premiums of $1,079 million were up $124 million or 13% over 2000. The majority of this increase was driven by strong sales of group payout annuities, along with a 19% rise in group life and health insurance premiums.

Segregated funds deposits of $1,888 million were up $630 million or 50% over 2000. These results are consistent with the Division's focus on wealth management products. The majority of this increase was from the Isle of Man operations, which recorded a significant increase in segregated funds deposits from offshore products, which are sold by IFAs mainly to U.K. residents.

Net Investment Income, Fee Income and Other Income

Net investment income of $422 million decreased by $53 million or 11% from 2000. This entire decline is due to the $54 million change in market valuation of certain equity instruments backing products in the general fund. This change is offset by a corresponding reduction in actuarial liabilities and, therefore, results in no impact on net income. Excluding this, net investment income increased marginally against 2000 as the impact of falling stock markets and declines in interest rates were more than offset by the increase in income from the growth in the underlying assets.

Fee and other income of $208 million decreased by $13 million or 6% over 2000. This is consistent with the reduction in market values of segregated funds assets as the U.K. stock market fell 16.2% during the year. This more than offset the increase from the strong growth in new segregated funds business during the year.

Expenditures

Policyholder benefits increased by $27 million or 2% over 2000. Payments to policyholders increased by $223 million or 32%, primarily due to increased compensation payments made in 2001 to policyholders for prior pension product sales, as well as increases for higher group life insurance claims and higher group payout annuity payments consistent with the growth in new business. The increase in actuarial liabilities fell by $196 million from 2000. This is primarily due to the reduction of provisions relating to the pension product sales as a result of the increased payments referred to above, as well as the effect of the change in market valuation on the equity instruments backing products in the general fund.

Commissions decreased by $7 million or 10% from 2000 due to the change in the mix of new business.

General expenses increased by $34 million or 20% from 2000. We increased expenditure in support of our new business growth, continued our investment in new information systems supporting customer service and financial reporting, and increased our expenditure in completing our work on the review of prior pension product sales in accordance with the U.K. regulator's timetable.

Products and Services

Individual Life and Health Insurance

Total non-participating and participating individual life and health insurance premiums fell by $5 million or 3% from 2000. Non-participating individual life and health insurance premiums increased by $5 million or 8% over 2000 due to strong renewal premiums and steady new business through the increased IFA channel.

We changed our individual term insurance rates in 2001 and the products are now priced more competitively. We expect to see increased growth in new business in 2002 as a result.

Participating individual life premiums decreased by $10 million or 10% over 2000. As planned, no new business is being sold in these closed funds, which will decline as policies terminate, mature or lapse.

Group Life and Health Insurance

In group life and health, premium income increased by $40 million or 19% over 2000 due to new business and strong renewal premium growth during the year.

Investments and Pensions

Our expansion in the IFA channel contributed to an increase of 50% in segregated funds deposits overall. This increase is primarily driven by sales through the Division's offshore subsidiary. Annuity premiums increased by $89 million over 2000, principally driven by a 30% growth in sales of group payout annuities.

We recorded new business premiums of $95 million from the flexible retirement income product Annuity Growth Account, which was launched in the second half of 2000. Since the launch, this product continues to be innovative in the market as only one leading competitor has launched a similar product to date.

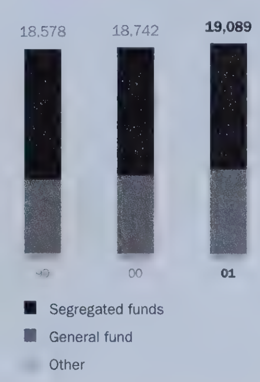
Assets Under Administration

(in millions of Canadian dollars)	**2001**	2000
General fund	**$ 7,421**	$ 6,855
Segregated funds	**11,053**	11,219
Other assets	**615**	668
	$ 19,089	$ 18,742

Total assets under administration of $19,089 million increased $347 million or 2% over 2000. The impact of currency translation due to the change in rates over 2000 was $669 million. In local currency, total assets fell by 2%.

General fund assets grew by $566 million or 8% over 2000. In local currency, these assets increased by 5%. This increase is consistent with the level of growth in new business for group payout annuities, the largest component of liabilities that these assets support.

Assets under administration
United Kingdom
(in millions of Canadian dollars)



Segregated funds assets fell by $166 million or 1% from 2000. In local currency, these assets fell by 5%. The strong growth in new business has been offset by the impact of the fall in the U.K. stock market during 2001.

Other assets reflect the unit trusts held by outside investors. These assets have fallen by 8% due to the drop in the U.K. stock market in 2001.

Divisional Outlook

We expect that growth in our wealth management business will continue during 2002 as we continue to develop and strengthen our relationships with the IFAs. Our Isle of Man operations are expected to continue to grow as part of this expansion, selling through IFAs in the United Kingdom and brokers in other selected territories. Premiums and deposits are growing strongly in our offshore business, up 60% over 2000, and we intend to continue to focus our efforts on sustaining this growth.

We focused on growing our retirement income business in 2001 with the sale of payout annuities and our innovative new Annuity Growth Account. This led to sales in 2001 that were 35% up over the previous year and we intend to continue to concentrate our efforts on growing this business further in 2002, reinforcing our top 10 position as a retirement annuity provider.

In 2001, we successfully grew our group protection business with total premium revenue in group life and health ahead of 2000 by 19%. We expect to continue our success in this business in 2002 and to further increase our market share.

We will continue projects that are underway to upgrade our information systems and to reduce the number of administrative systems currently in use. This work began in 2000 and is on track to deliver a more efficient infrastructure for our individual policy processing in the second half of 2002.

United States Division

The U.S. Division offers a wide range of protection and wealth management products and related services. It is organized into two operational areas that market (i) group life insurance, disability income insurance and other group protection products and (ii) individual life insurance, and savings and investment products. For ease of comparison among divisions, the U.S. Division's discussion and analysis is broken down by product grouping rather than by distribution channels:

Protection		Wealth Management
Individual Life and Health Insurance	**Group Life and Health Insurance**	**Investments and Pensions**
Whole Life	Long Term Disability	Fixed Annuities
Term Life	Short Term Disability	Variable Annuities (Segregated Funds)
Universal Life	Accidental Death and Dismemberment	
Critical Illness	Dental	
Variable Universal Life (Segregated Funds)	Critical Illness	
	Medical Stop Loss	
	Group Life	

Highlights

- Shareholders' net income increased by $5 million or 6% over 2000.
- Driven by the group sales force expansion, group sales as measured by new annualized premiums increased by 62% or $65 million.
- As a result of new product introductions and investments in infrastructure to support marketing efforts, total general fund premiums increased by 24%.

The Division carries on business in all 50 states and in the District of Columbia through 30 group offices and 20 individual offices, which support distribution of its products through independent personal producing agents, brokers, consultants and salaried group sales representatives.

Financial Performance

Shareholders' net income increased to $87 million for 2001, a 6% increase over 2000. The increase was a result of growth in all lines of the business, improvements in our asset and liability matching program and a favourable impact from changes in actuarial liabilities from revised assumptions and refinements in the basis of calculating these liabilities. These favourable factors were partially offset by unfavourable mortality and morbidity in the group life and health insurance business.

U.S. Division's Shareholders' Net Income

(in millions of Canadian dollars)	**2001**	2000	$ Change	% Change
Individual life and health insurance	**$ 38**	$ 31	$ 7	23
Group life and health insurance	**(3)**	15	(18)	(120)
Investments and pensions	**52**	36	16	44
U.S. Division's shareholders' net income	**$ 87**	$ 82	$ 5	6

Summary Statement of Operations

(in millions of Canadian dollars)	**2001**	2000	$ Change	% Change
Revenues				
Premiums	**$ 1,671**	$ 1,351	$ 320	24
Net investment income	**704**	698	6	1
Fee and other income	**16**	21	(5)	(24)
	2,391	2,070	321	16
Expenditures				
Policyholder benefits	**1,992**	1,730	262	15
Commissions	**106**	86	20	23
General expenses	**155**	128	27	21
Other	**30**	27	3	11
	2,283	1,971	312	16
Net income before income taxes	**108**	99	9	9
Income taxes	**30**	25	5	20
Net income	**78**	74	4	5
Participating policyholders' net loss	**(9)**	(8)	(1)	(13)
Shareholders' net income	**$ 87**	$ 82	$ 5	6
Return on shareholders' equity	**13.4%**	12.9%		

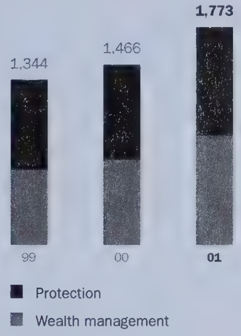
Premiums, Premium Equivalents and New Deposits

(in millions of Canadian dollars)	**2001**	2000
Annuities	**$ 790**	$ 580
Individual life and health insurance	**433**	428
Group life and health insurance	**448**	343
General fund premiums	**1,671**	1,351
Segregated funds deposits	**102**	115
	$ 1,773	$ 1,466

General fund premiums of $1,671 million in 2001 increased by $320 million or 24% from 2000. Increased annuity premiums resulted from higher structured settlement and GIC sales. The increase in group life and health premium income is a direct result of the group sales force expansion initiative started in 1999. Increased premiums from newer non-participating products were largely offset by lower premiums in older blocks of business resulting in total individual life and health premiums remaining relatively unchanged.

Segregated funds deposits of $102 million in 2001 were $13 million or 11% lower than in 2000, reflecting the Division's de-emphasis of this business in 1999 and consumer reaction to the decline of the U.S. stock markets in 2001.

General fund premiums and segregated funds deposits
United States
(in millions of Canadian dollars)



Net Investment Income, Fee Income and Other Income

Net investment income increased by $6 million or 1% over 2000 despite reduced income due to poor stock market performance. The lower interest rates and decline in the stock market coupled with increases in investment provisions were offset by the positive effects of currency fluctuations throughout 2001.

Fee and other income decreased by $5 million or 24% over 2000, resulting from the decline in segregated funds assets market value due to the poor performance of U.S. stock markets.

Expenditures

Policyholder benefits increased by $262 million or 15% over 2000. The majority of the increase results from increases in actuarial liabilities due to increased structured settlement and GIC sales. In addition, group protection benefits rose with the increased size of the business.

General expenses were up by $27 million or 21% over 2000. The majority of the increase is a result of the group sales force expansion and increased group business volume. In addition, expenses increased due to the expansion of the individual variable products marketing infrastructure.

Income taxes increased by $5 million or 20% from 2000 due to higher pre-tax income and a lower amount of tax-free income in 2001.

Products and Services

Individual Life and Health Insurance

Individual life and health premiums remained constant in 2001 as higher non-participating premiums were offset by lower premiums in the reinsured Crown Life business as that business declines over time. Participating life insurance premiums were relatively flat. Participating life insurance will continue to play a role going forward, but the emphasis will remain on the expansion of our product offering and revenue base in non-participating products. Our competitive product portfolio has enabled us to become more aligned with the industry mix of business, especially with non-participating term business. As a result, production of new business increased over 20% as compared to 2000.

The individual insurance operation concentrated on penetrating the variable universal life market, while continuing to increase the competitiveness of our product portfolio. Throughout 2001, six sales directors were added to increase sales across the United States and six product initiatives were launched, further increasing the breadth of our product portfolio. As several of these products were introduced late in 2001, the full revenue impact will not take place until 2002. One of these products was our entry into web-based distribution with a product that will be sold solely over the Internet.

Group Life and Health Insurance

Premium revenues increased by $105 million or 31% compared with 2000. This increase is attributable to the success of the group sales force expansion initiated in 1999. New sales in 2001, as measured by new annualized premiums, were especially strong at $169 million, an increase of 62% over 2000.

The group sales force expansion continued in 2001, increasing the number of sales offices throughout the United States from 17 in 1999 to 30 in 2001. As well, in April 2001 a strategic alliance was established with Ohio National, which allowed us to renew their in force block of business beginning with July 2001 renewals. Ohio National agents will continue to sell Canada Life's group products. During 2001, the loss ratio on several of our products did not meet management's expectations. As a result, several initiatives were implemented that focus on pricing, administration and underwriting. These are expected to improve results in 2002. New actuarial standards implemented in 2001 allow for the deferral of acquisition expenses in the group life and health business, which benefits growing operations such as the U.S. group operation. Additionally, actuarial liabilities were established in 2001 to recognize premium deficiencies in certain blocks of business through the end of applicable rate guarantee periods in 2002 and 2003.

Investments and Pensions

Annuity premiums increased 36% in 2001 due to increases in structured settlement and GIC sales. While GICs are not a core growth product, we sell them when spreads are favourable. Two years of poor stock market performance led to an increased consumer interest in general fund annuity products in 2001, which fueled demand for GICs. While protection products are the U.S. Division's primary focus, we will continue to look for opportunities to write wealth accumulation business when our return objectives can be met.

A major initiative in 2001 included enhancements to variable annuity fund investment offerings. We also realized benefits from improvements in our asset and liability matching program.

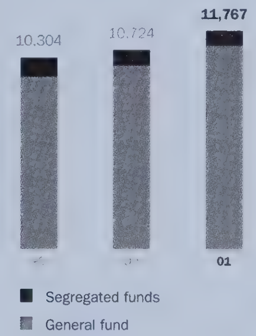
Assets Under Administration

(in millions of Canadian dollars)	**2001**	2000
General fund	**$ 10,942**	$ 9,870
Segregated funds	**825**	854
	$ 11,767	$ 10,724

Total assets increased by $1,043 million or 10% over 2000. Total general fund assets grew by $1,072 million or 11% over 2000. Most of the increase in general fund assets is due to the strengthening of the U.S. dollar over the Canadian dollar in 2001. Total segregated funds assets decreased by $29 million or 3% from 2000, primarily attributable to a decline in the U.S. stock markets.

Since protection products are the primary focus in the U.S. Division, U.S. asset growth is expected to be below the growth rate for the Company as a whole.

Assets under administration
United States
(in millions of Canadian dollars)



Divisional Outlook

Our plans for 2002 reflect a continuation in the core strategies of focusing on our protection business. We will continue to increase our group sales production capacity, but at a lower rate than 2001 and 2000. We expect to realize more of the benefits from the capacity added in the past two years. To improve profitability, we will be re-pricing products in certain parts of the business where claims losses have exceeded expectations. In individual protection, we will continue the build up of infrastructure to support our marketing efforts in the variable universal life market.

Our technology initiatives for 2002 will emphasize Internet functionality with a focus on client service in our wealth accumulation business and producer support in our individual protection business. We have already begun to realize economies from implementations of new life and annuity systems in earlier years, and we expect to begin realizing savings from our new group life and health insurance systems in the second half of 2002.

Irish Division

The Irish Division offers a wide range of protection and wealth management products in the Republic of Ireland and Germany. Asset management services are also offered through our subsidiary, Setanta.

Highlights

- **Shareholders' net income increased by $12 million or 55% to $34 million.**
- **39% growth in new business including:**
  - 70% growth in annual premium and a 13% drop in single premium business in the Republic of Ireland.
  - Revenues of $4 million in Germany with over 4,000 new policies sold in 2001, our first full year of operation in that market.

Protection

Individual Life and Health Insurance

Term Life

Regular Premium Unit Linked

Critical Illness

Group Life and Health Insurance

Short Term Single Premium Group Life

Disability Insurance

Wealth Management

Investments and Pensions

Regular Premium Pension Accumulation

Single Premium Pension Accumulation

Single Premium Fixed Payout Annuities

Single Premium Investments

Participating Endowments

The Division operates through 13 branch offices in the Republic of Ireland and one office in Cologne, Germany.

Customers in the Republic of Ireland are serviced through two major distribution channels: Independent Brokers and the Financial Consultancy Division (direct sales). In Germany, products and services are offered through Independent Brokers. For ease of comparison among divisions, the Irish Division's discussion and analysis is broken down by product grouping.

Financial Performance

Shareholders' net income was $34 million for the year, a $12 million or 55% increase over 2000. This strong result was achieved through growth in all lines of business and favourable claims experience. The 2001 shareholders' net income includes a $6 million release of actuarial liabilities as a result of revised mortality and lapse assumptions, reflecting positive experience in these areas.

Irish Division's Shareholders' Net Income

(in millions of Canadian dollars)	2001	2000	$ Change	% Change
Individual life and health insurance	$ 14	$ 9	$ 5	56
Group life and health insurance	(1)	2	(3)	(150)
Investments and pensions	21	11	10	91
Irish Division's shareholders' net income	$ 34	$ 22	$ 12	55

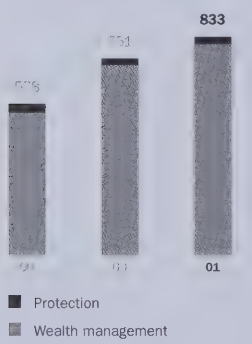
Summary Statement Of Operations

(in millions of Canadian dollars)	2001	2000	$ Change	% Change
Revenues				
Premiums	$ 391	$ 344	$ 47	14
Net investment income	65	77	(12)	(16)
Fee and other income	58	57	1	2
	514	478	36	8
Expenditures				
Policyholder benefits	344	334	10	3
Commissions	54	42	12	29
General expenses	74	68	6	9
Other	(9)	(2)	(7)	350
	463	442	21	5
Net income before income taxes	51	36	15	42
Income taxes	13	11	2	18
Net income	38	25	13	52
Participating policyholders' net income	4	3	1	33
Shareholders' net income	$ 34	$ 22	$ 12	55
Return on shareholders' equity	16.7%	13.7%		

Premiums, Premium Equivalents and New Deposits

(in millions of Canadian dollars)	2001	2000
Wealth management	$ 362	$ 317
Individual life and health insurance	22	19
Group life and health insurance	7	8
General fund premiums	391	344
Segregated funds deposits	442	407
	$ 833	$ 751

General fund premiums and segregated funds deposits
Republic of Ireland
(in millions of Canadian dollars)



Premiums, premium equivalents and new deposits grew $82 million or 11% over 2000. General fund premiums rose 14%, reflecting the increased attractiveness of products with investment guarantees during volatile stock market conditions and higher sales of annuity business. Segregated funds deposits grew 9%. Strong sales of segregated funds pension business was offset somewhat by a decline in other wealth management business, reflective of the uncertainty in the stock market during most of 2001. Canada Life Europe, our operation in Germany, generated premiums of $4 million in 2001, our first full year of operation in that market.

Investment Income, Fee Income and Other Income

Net investment income decreased by $12 million or 16% over 2000. The drop in stock markets was partially offset by increased investment income arising from growth in general fund assets under management.

Fee and other income remained relatively flat year-over-year.

Expenditures

Policyholder benefits increased by $10 million or 3% over 2000. The change in actuarial liabilities increased by $28 million, reflecting the increase in general fund premiums. This was partially offset by a reduction in payments to policyholders of $18 million as a result of a lower level of guaranteed bond maturities over 2000.

Commissions increased by $12 million or 29% over 2000. This was due to strong growth in new regular premium business on which we pay higher commissions.

General expenses increased by $6 million or 9% over 2000, as a result of increasing business volume in the Republic of Ireland and the cost of developing a suitable infrastructure for the new German operation.

The effective tax rate fell from 31% to 25% in 2001 reflecting a general reduction in statutory tax rates in the Republic of Ireland.

Products and Services

Individual and Group Life and Health Insurance

Individual protection premiums increased by $3 million or 16% in 2001. We continue to be one of the leading writers of protection business in the Republic of Ireland, with an estimated market share of 10%.

Group products represent a very small part of the Irish Division's business. In 2001, premium income reduced slightly from 2000. The competitive rates available in this market are too low to satisfy our targets for return and profit objectives. As a result, we expect to see revenues decline further over the coming years.

Investments and Pensions

Wealth management continued to be an area of strong growth. General fund premiums rose 14% while segregated funds deposits rose 9%. Stock market volatility led to an increased demand for products with investment guarantees. Company sponsored pensions is a rapidly growing market and has been the focus of our back office administration and information system developments during 2001.

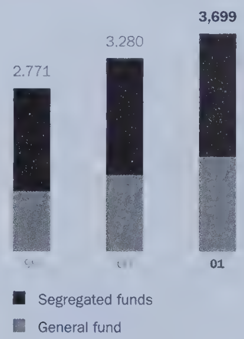
We introduced a government sponsored Special Savings Investment Account in April 2001 which generated $30 million in new annualized premiums. This product will continue to be sold until April 2002, at which time government sponsorship will be withdrawn.

Also, within this business segment, Canada Life Europe, our operation in Germany, generated premiums of $4 million in 2001, our first full year of operation in that market.

Assets Under Administration

(in millions of Canadian dollars)	**2001**	2000
General fund	**$ 1,609**	$ 1,300
Segregated funds	**2,090**	1,980
	$ 3,699	$ 3,280

Assets under administration
Republic of Ireland
(in millions of Canadian dollars)



Total assets increased $419 million or 13% over 2000. General fund assets grew $309 million, reflecting strong revenue growth.

Segregated funds assets increased by $110 million, with strong deposits offset somewhat by the decline in stock markets.

Divisional Outlook

We have significant market share in the Republic of Ireland, and we experienced a 31% growth in sales in 2001. This performance strengthened our position as the fifth largest life insurance company in the Republic of Ireland as measured by new business market share. Our focus in the Republic of Ireland for 2002 will be on the major growth areas within wealth management.

Pensions is a rapidly growing market. We have achieved sales growth in excess of the market average. We will continue to invest in our back office administration systems to enhance our customer service in this area. Excellent customer service, combined with Setanta's strong investment performance track record, will support our growth plans in this market.

Setanta, our asset management company, has been in operation for three years. Its above average investment performance over that period will provide continued support for the sale of wealth management business and will help attract additional third party asset management business.

Following our significant success in Germany this year with over 4,000 new policies sold, we will focus on further growth in 2002. We will achieve this through increasing the number of supporting brokers, working with key account distribution and expanding our product range.

International and Reinsurance Division

This Division is organized into two areas of business; the International operation and the Reinsurance operation offering the following products:

Highlights

- Recorded an $85 million claim provision, net of tax, relating to September 11, 2001.
- Life reinsurance premium income grew 20%.
- Purchased remaining 10% stake of Canada Life Pactual Previdência e Seguros S.A. (Brazil).
- Expansion of pension offerings in Brazil with the acquisition of defined benefit administration facility and clients.
- Canada Life International Re Ltd. and Canada Life Insurance Company Inc. of Puerto Rico were formed. Both are anticipated to attract increased business opportunities in their respective markets.

International		Reinsurance	
Protection	**Wealth Management**	**Life Insurance**	**Accident & Health Insurance**
Individual Life and Health Insurance	Pension Plans	Individual Life	Catastrophe
Group Life and Health Insurance		Group Life	Personal Accident
		Financial	Worker's Compensation
			Disability

The International operation manages the Brazilian subsidiary holdings and certain non-North American business including the Hong Kong, Macau, Puerto Rico, Bermuda and Bahamas operations.

The Reinsurance operation manages the Company's reinsurance business and acts primarily as a direct reinsurer in the regular life insurance business. While having acted as both a reinsurer and a retrocessionaire in the accident and health insurance business, the Division has ceased writing new business in 2001 and now administers the run-off of these contracts. The Division also administers financial reinsurance contracts. The majority of the Division's reinsurance business is in the United States.

Financial Performance

The results of the Division this year have been significantly impacted by the effect of expected claims arising from September 11, 2001 for which we have recorded an $85 million provision net of tax. This provision, along with provisions established in the ordinary course of business, is to cover claims arising primarily from the accident and health reinsurance business which provided catastrophe reinsurance coverage to various insurance entities. The risks underlying the catastrophe reinsurance coverage include life insurance, accidental death, and life and health insurance associated with worker's compensation. The details of this provision have been fully described on page 14 of this document.

Excluding the provisions related to September 11, shareholders' net income remained relatively constant year-over-year at $17 million.

International and Reinsurance Division's Shareholders' Net Income

(in millions of Canadian dollars)	**2001**	2000	$ Change
International	**$ 5**	$ 5	$ —
Reinsurance	**12**	12	—
International and Reinsurance Division's shareholders' net income before the following:	**17**	17	—
Provision for claims arising from September 11	**(85)**	—	(85)
International and Reinsurance Division's shareholders' net income	**$ (68)**	$ 17	$ (85)

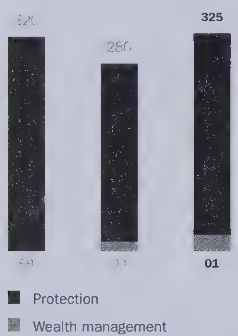
Summary Statement of Operations

(in millions of Canadian dollars)	**2001**	2000	$ Change
Revenues			
Premiums	**$ 324**	$ 277	$ 47
Net investment income	**66**	61	5
Fee and other income	**5**	3	2
	395	341	54
Expenditures			
Policyholder benefits	**401**	228	173
Commissions	**60**	53	7
General expenses	**35**	27	8
Other	**9**	9	—
	505	317	188
Net income (loss) before income taxes	**(110)**	24	(134)
Income taxes (recovery)	**(42)**	6	(48)
Net income (loss)	**(68)**	18	(86)
Participating policyholders' net income	**—**	1	(1)
Shareholders' net income (loss)	**$ (68)**	$ 17	$ (85)

Premiums, Premium Equivalents and New Deposits

(in millions of Canadian dollars)	**2001**	2000
International	**$ 155**	$ 124
Reinsurance		
Life	**146**	122
Accident and health	**23**	31
General fund premiums	**324**	277
Segregated funds deposits	**1**	3
	$ 325	$ 280

General fund premiums and segregated funds deposits
International and Reinsurance
(in millions of Canadian dollars)



International Operations

Our International operation offers life, health and pension insurance products through multiple distribution channels including agents, insurance brokers and the Internet. In 2001, we increased our investment in our Brazilian operations (Canada Life Pactual Previdência e Seguros S.A.), increasing our ownership stake to 100%. Also during 2001, we expanded our Puerto Rican operations, incorporating a new subsidiary, Canada Life Insurance Company Inc. of Puerto Rico. The already established Beijing representative office continued to study market conditions in the People's Republic of China.

Premium income for the International operation increased to $155 million in 2001, up $31 million or 25% from 2000 on a comparative basis. Group sales were particularly high as a result of focusing on specific market segments in Puerto Rico and Brazil. Participating premiums decreased in 2001, reflecting the ongoing run-off of the closed funds since demutualization.

Reinsurance Operations

Life

We continued to expand in 2001 in select business lines, primarily life reinsurance. Life reinsurance premiums increased to $146 million from $122 million in 2000 backed by strong growth in sales. Many new customer relationships were developed in this market and mortality results were favourable. The impact of September 11 claims for life reinsurance was small, with $5 million of claims largely offset by reductions in existing policy liabilities.

During 2001, a new subsidiary, Canada Life International Re Ltd. was incorporated to provide reinsurance services to North American and European companies.

Accident and Health

The provision taken for September 11 is contained within the accident and health line of business. Due to the nature of risk inherent in this line of business, we ceased writing new accident and health (including catastrophe) reinsurance business in 2001. We will continue to retain a declining amount of net risk until the current in force contracts terminate.

The run-off of medical contracts acquired from Crown Life in 1999 that we commenced last year has progressed as anticipated, causing the drop in premium income from $31 million in 2000 to $23 million in 2001 and a corresponding decrease in policyholder benefits associated with this business.

Assets Under Administration

(in millions of Canadian dollars)		**2001**		2000
General fund	**$**	**948**	$	741
Segregated funds		**4**		4
Other assets		**13**		—
	$	**965**	$	745

Total assets increased by $220 million or 30% from 2000. The increase was due to higher business volumes in our International operation and life reinsurance, the capitalization of Canada Life International Re Ltd., the acquisition of the closed pension business in Brazil and the strengthening of the U.S. dollar against the Canadian dollar.

Divisional Outlook

In 2002, we will focus on growing our International and life reinsurance businesses.

For our International operations:

- In our Brazilian subsidiary, growth in premium income from group savings and group insurance is expected to be significant. While we are targeting to increase net income, a critical mass of business sufficient to adequately cover fixed expenses will be required before a break-even result is achieved.
- The transfer of business to our newly established Puerto Rican subsidiary will reflect our comprehensive local business presence and increase our ability to capitalize on sales opportunities.
- Expansion of our annuity product line is anticipated for our Bermuda branch operations.

For our Reinsurance operations:

- We will focus on increasing our life reinsurance market share in the United States, and pursue new business opportunities through Canada Life International Re Ltd.

Assets under administration
International and Reinsurance
(in millions of Canadian dollars)

Investment Division

Operations

The Company's investment operations are comprised of investment management groups in Toronto, London and Dublin[1] and are responsible for management of the Company's invested assets across all business units. The North American investment management group in Toronto is responsible for developing investment policy for worldwide operations and for managing the North American based assets. Investment management personnel in London and Dublin directly manage the U.K. and Irish investment operations respectively, to capitalize on the asset selection and management expertise within these local markets.

Considerable effort is directed toward total portfolio results and asset/liability matching. These results are monitored through key performance measures of return on invested assets and are compared against benchmarks established for invested assets both in the operating funds and supporting the equity of the Company as appropriate.

Vision

A global investment management services organization that delivers excellent investment performance through the expertise of its people, enabled by superior analytical tools and risk management processes.

The Investment Division's goal is to provide superior investment management services to the Company's business operations and to offer competitive and innovative products that meet their needs. This focus includes the objective of maximizing overall returns on investments while considering the characteristics of the liabilities, regulatory requirements, investment goals, and risk parameters in an efficient and effective manner. The Company's asset/liability matching policies are designed to ensure that changes in asset values attributable to interest rate movements and foreign currency fluctuations are substantially offset by changes in the related liability.

Looking forward to 2002, the Investment Division will continue to focus on optimizing investment returns within acceptable risk/reward parameters and providing investment service to internal customers. The ongoing success in maintaining a quality investment portfolio will continue to enable the Company to meet policyholders' future needs while contributing toward the return on shareholders' equity.

[1] *The Company's principal operating Investment subsidiaries are:*

- *Canada Life Mortgage Services Ltd. (CLMS) which specializes in originating and servicing mortgage investment loans for institutional clients.*
- *Setanta Asset Management Limited which manages the assets in the Republic of Ireland on behalf of the Company.*

In addition, the Company owns 40% of Laketon Investment Management Ltd. ("Laketon") which manages assets on behalf of the Company and third parties.

Financial Position

Assets Under Administration

(in millions of Canadian dollars)	**2001**	2000	% Change
Invested assets	**$ 33,445**	$ 31,123	7
Other	**1,506**	1,613	(7)
General fund assets	**34,951**	32,736	7
Segregated funds assets	**22,090**	22,383	(1)
	57,041	55,119	3
Other assets under administration	**8,384**	8,138	3
	$ 65,425	$ 63,257	3

General Fund Invested Assets

Invested assets

(in millions of Canadian dollars)		**2001**	**%**	2000	%
Bonds		**$ 19,046**	**57**	$ 17,681	57
Mortgages		**7,996**	**24**	7,583	24
Common and preferred stocks		**2,475**	**7**	2,002	6
Real estate		**941**	**3**	851	3
Policy loans		**1,070**	**3**	988	3
Cash and cash equivalents		**993**	**3**	1,051	4
Short-term and other investments		**924**	**3**	967	3
Total invested assets	–carrying value	**$ 33,445**	**100**	$ 31,123	100
	–fair value	**$ 34,976**		$ 32,786	

The Company's general fund invested assets increased to $33,445 million in 2001 from $31,123 million in 2000, with minimal changes in asset mix. These assets support $29,671 million in actuarial and other liabilities and $3,774 million in shareholders' equity and subordinated debentures of the Company. The Company has established an investment portfolio that reflects a generally conservative investment philosophy, the characteristics of the Company's liabilities, and market opportunities and expectations.

Bonds

Bond portfolio quality

(in millions of Canadian dollars)		**2001**	**%**	2000	%
AAA		**$ 6,200**	**32**	$ 6,760	38
AA		**2,966**	**16**	2,630	15
A		**5,147**	**27**	4,617	26
BBB		**3,915**	**21**	3,025	17
Below BBB/unrated		**818**	**4**	649	4
Total bonds	–carrying value	**$ 19,046**	**100**	$ 17,681	100
	–fair value	**$ 19,866**		$ 18,421	
Average bond quality		**A+**		AA–	

The Company's bond portfolio was 57% of the total invested assets of the general fund. The bond portfolio was comprised of 33% government bonds and 67% corporate bonds. The portfolio is diversified in each of the four major countries in which the Company operates. To support the business in each Division, as at December 31, 2001, the bond portfolio was distributed as follows: 40% in Canada, 24% in the United Kingdom, 30% in the United States, 4% in the Republic of Ireland and 2% in International and Reinsurance. The excess of fair value over carrying value at December 31, 2001 was $820 million ($740 million for 2000).

The Company's policy is to maintain a bond portfolio having a minimum weighted average rating of A, within acceptable risk levels. Bonds are rated by independent rating agencies, where available, or internally on a basis comparable to that used by independent rating agencies. In addition, the investment policy limits the permitted proportion of high yield debt investments that are below Investment Grade (below the BBB range) to 5% of consolidated bonds and mortgages in consideration of the higher risk profile of these types of investments.

The shift in bond quality is the result of increased investments in corporate bonds and private placements and a reduction in government bonds. These shifts in quality averages occurred in portfolios in Canada, the United Kingdom and the United States.

Mortgages and Real Estate

(in millions of Canadian dollars)		**2001**	**%**	2000	%
Apartment		**$ 2,888**	**36**	$ 2,573	34
Retail		**2,366**	**30**	2,519	32
Industrial		**1,349**	**17**	1,255	17
Office		**1,024**	**13**	1,029	14
Other		**369**	**4**	207	3
Total mortgages	–carrying value	**$ 7,996**	**100**	$ 7,583	100
	–fair value	**$ 8,514**		$ 7,994	
Total real estate	–carrying value	**$ 941**		$ 851	
	–fair value	**$ 1,023**		$ 942	

As at December 31, 2001, the mortgage portfolio represented 24% of the general fund invested assets of the Company. The portfolio is well diversified across property types as detailed in the chart above and is primarily located in Canada and the United States. The fair value of mortgages exceed carrying value as at December 31, 2001 by $518 million ($411 million for 2000).

The Company actively manages the asset quality of our mortgage portfolio. At the end of 2001, the mortgage portfolio quality was high, with a weighted average rating, excluding government-insured mortgages, of A. Mortgages are rated using a formal internal rating system. A weighted average minimum rating, excluding government-insured mortgages, of BBB– has been set for the mortgage portfolio.

As at December 31, 2001, 3% of the general fund invested assets were held in real estate. The real estate portfolio is diversified across various property types and is primarily located in Canada and the United Kingdom. The fair value of real estate exceeded carrying value by $82 million ($91 million for 2000).

Common and Preferred Stocks

Common and preferred stocks by jurisdiction

(in millions of Canadian dollars)	2001	%	2000	%
Canada	$ 543	22	$ 387	20
United States	459	19	306	15
United Kingdom	763	31	802	40
Republic of Ireland	710	28	507	25
Total common and preferred stocks –carrying value[1]	$ 2,475	100	$ 2,002	100
–fair value	$ 2,571		$ 2,418	

[1] *Preferred stocks comprise $62 million or 3% ($74 million or 4% for 2000) of the carrying value and $63 million ($75 million for 2000) of the fair value of stocks.*

As at December 31, 2001, common and preferred stocks comprise 7% of the general fund invested assets compared with 6% in 2000. The fair value of common and preferred stocks exceeded carrying value as at December 31, 2001 by $96 million ($416 million for 2000). The increases in stocks in Canada and the United States reflect the investment of the proceeds from the sale of real estate (Sherway Gardens Shopping Centre) in 2000. The increase in the Republic of Ireland reflects investments that support equity related insurance products.

The stock portfolio is well diversified by jurisdiction, industry classification and issuer. As at December 31, 2001, the largest issuer represented 2% (unchanged from 2000) of the common and preferred stock portfolio based on the carrying value of those securities.

Fair Value

The fair value of invested assets exceeded their carrying value by $1,531 million as at December 31, 2001, compared with an excess of fair value over carrying value of $1,663 million in 2000. Total fair value grew to $34,976 million from $32,786 million in 2000. The increase in fair value year-over-year reflects the increase in assets as well as lower interest rates, which resulted in higher bond and mortgage fair values in 2001, offset by the impact of weaker stock markets. Changes in the fair value of assets supporting the actuarial and other liabilities of the Company's operating funds generally will not result in a corresponding change in net income due to the Company's asset/liability management practices. However, the excess of fair value over carrying value, as well as the net deferred realized gains, on assets supporting shareholders' equity will in time be amortized into net income. This excess totalled $360 million in 2001 compared with $463 million in 2000.

Impaired Assets

Impaired Assets and Provisions

(in millions of Canadian dollars)		2001			2000	
	Gross carrying value	Provision	Net carrying value	Gross carrying value	Provision	Net carrying value
Bonds	$ 186	$ 48	$ 138	$ 61	$ 20	$ 41
Mortgages and real estate	36	18	18	55	27	28
Common and preferred stocks	—	—	—	17	3	14
Other	24	5	19	5	2	3
Total	$ 246	$ 71	$ 175	$ 138	$ 52	$ 86
% Net impaired assets to total general fund net invested assets			0.5%			0.3%

Provisions for losses on invested assets are established when an asset or portfolio of assets is impaired as a result of deterioration in credit quality to the extent that there is no longer assurance of timely realization of the carrying value of assets and related investment income. The carrying value of an impaired asset is reduced to the net realizable value of the asset at the time of recognition of impairment and a corresponding provision is charged to the income statement.

The aggregate amount of net impaired assets rose to $175 million at the end of 2001, compared with $86 million in 2000. The primary increase in impaired assets is in the bond portfolio. The increase in impaired bonds reflects the economic slowdown during 2001. The overall arrears and restructuring experience for our mortgage portfolio improved further in 2001 and was more favourable than industry averages in both Canada and the United States.

Segregated Funds Assets

The Company manages segregated funds assets on behalf of policyholders under various arrangements. These assets are carried at market value. Segregated funds assets decreased by 1% in 2001 over 2000 as growth from net deposits in Canada, the United Kingdom and the Republic of Ireland was more than offset by the impact of the declines in the global stock markets.

Other Assets Under Administration

The Company manages, or administers for fees, other assets on behalf of third parties, primarily group pension and RRSP plans in Canada and Unit Trust arrangements in the United Kingdom. These assets are not owned by the Company and are excluded from both the general fund and segregated funds of the Company.

Actuarial Liabilities

During 2001, the Company adopted the new Standards of Practice for the Valuation of Policy Liabilities of Life Insurers as issued by the CIA. The new standard requires insurance companies to use the Canadian Asset Liability Method (CALM) for calculating actuarial liabilities.

Actuarial liabilities represent the amounts required, together with future premiums and estimated investment income, to provide for the estimated future benefits, policyholder dividends, commissions and maintenance expenses on policies in force. The actuarial liabilities constitute those financial statement amounts potentially subject to the highest level of measurement uncertainty as their determination is complex, reflecting the diversity of the underlying products and product features as well as a variety of best estimate assumptions. Because of the risk of mis-estimation in determining the amounts for these liabilities, the best estimate assumptions are adjusted to include margins for adverse deviation, which provide for unfavourable deviations from expected experience. Due to the long-term nature of actuarial liabilities and the incorporation of margins for adverse deviation, a fluctuation in experience compared to any one assumption in the near term would not normally be expected to have a significant effect on the financial results of the Company. Assumptions are described in note 3 to the Consolidated Financial Statements.

As noted above, the assumptions used in the calculations are based on best estimates and include a margin for adverse deviation. The range of these margins is set out in the valuation standards issued by the CIA. Given the diversity and size of the Company's portfolio, the risk of deviation being significantly different from expected is relatively low so that margins at the low end of the permissible range as prescribed by the CIA guidelines would often be justifiable. However, we frequently follow a more prudent practice of establishing margins generally close to the middle of the range.

The composition of actuarial liabilities is shown below:

Actuarial Liabilities

(in millions of Canadian dollars)	2001	%	2000	%
General fund				
Participating insurance and annuities	$ 5,680	21	$ 5,215	20
Non-participating:				
Annuities	15,771	58	14,958	59
Individual life and health insurance	3,773	14	3,514	14
Group life and health insurance	1,945	7	1,794	7
	$ 27,169	100	$ 25,481	100

A continuity of changes in general fund actuarial liabilities and a summary of the distribution of general fund actuarial liabilities by business segment and by major line of business are included in notes 7(a) and 7(b), respectively, to the Consolidated Financial Statements.

Capital and Capital Adequacy, Source of Funds and Liquidity

Capital and Capital Adequacy

Capital strength is important for the protection of policyholders and shareholders. Capital strength also helps to maintain strong credit ratings and allows us to take advantage of business opportunities. However, capital levels that are too high may lead to poor returns on shareholders' equity. A balance is maintained between the mix and level of capital to meet differing objectives.

Capital

(in millions of Canadian dollars)	2001	%	2000	%
Subordinated debentures	$ 550	14	$ 550	16
Participating policyholders' equity	40	1	44	1
Shareholders' equity				
Preferred shares	145	4	—	—
Common shares	317	8	317	9
Retained earnings	2,921	73	2,575	74
Total shareholders' equity	3,383	85	2,892	83
Total capital	$ 3,973	100	$ 3,486	100
Debt capital to capital ratio	17.5%		15.8%	
MCCSR	191%		197%[1]	

[1] *Restated for 2000 on a pro forma basis for the impact of the new actuarial and accounting standards adopted in 2001.*

Most of the Company's capital has been generated from retained earnings. A new preferred share issue together with existing subordinated debt has raised the debt to capital ratio to 17.5% at year-end up from 15.8% at the end of 2000, still well below the level we are targeting. The current low interest environment is offering opportunities to raise capital at attractive rates. We will continue to take advantage of these opportunities plus the opportunities to increase our leverage ratio but only to the extent that the total preferred shares and subordinated debt outstanding does not exceed 25% of total capital.

The Company must meet the regulatory minimum capital and solvency requirements in each jurisdiction in which we operate. In Canada, the Company is regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI), which requires insurance companies to maintain minimum levels of capital calculated in accordance with the Minimum Continuing Capital and Surplus Requirements (MCCSR). The MCCSR formula prescribes the calculation of Available Capital for regulatory purposes and of the amounts of Required Capital to be maintained, based on the risk characteristics of the underlying assets and liabilities held by the Company. The ratio of Available Capital to Required Capital is the MCCSR ratio, with a minimum required ratio of 150%.

The Company's ratio at December 31, 2001 was 191%, within our target range of 175% to 200% and well in excess of the minimum required level. Growth in retained earnings and additional capital raised through the preferred shares issue added new capital, while changes in risk profile and the increase in capital requirements arising from strong business growth together with new requirements for segregated funds guarantees reduced the ratio from 197%, calculated on a pro forma basis, at the end of 2000.

To assess capital adequacy and financial strength under adverse conditions, we perform Dynamic Capital Adequacy Testing on an annual basis. The process analyzes the Company's potential future financial condition over a five-year period by reviewing the impact of a number of adverse business scenarios, which include declining interest rates, decreasing stock market levels, worsening mortality, lapse, and morbidity experience and increased expenses. The results of the testing completed in 2001 confirmed the Company's current financial strength and its ability to withstand significant possible future adversity.

Source of Funds

The primary source of funds for the Company is cash provided by operating activities, including premiums, net investment income and fees. These funds are used primarily to pay policyholder benefits, including claims and expenses. Net cash flows generated from operating activities are generally invested to support future payment requirements and are used to pay dividends to shareholders. In addition, the Company may raise funds from time to time through the issue of debt or equity securities to finance growth, acquisitions or other needs.

Liquidity

Our primary requirements for liquidity are for payment of benefits and expenses as described above, to satisfy debt obligations and to pay dividends to shareholders. We generally maintain a conservative liquidity position and actively manage capital levels throughout the Company. As we are required to maintain solvency and capital standards in the various countries in which we operate, we have an asset/liability matching program and actively manage the diversification, duration and credit quality of our investments to ensure that the Company is able to meet its obligations.

The Company's ability to meet its cash requirements and pay dividends on the common and preferred shares will depend on the receipt of dividends and other payments from its subsidiary, The Canada Life Assurance Company (CLA). CLA's insurance subsidiaries and branches are required to maintain solvency and capital standards in the jurisdictions in which they operate. These regulatory standards may effectively restrict the amount of dividends, distributions or other payments that may be made by such subsidiaries and branches to CLA and to the Company.

Risk Management

A key Company objective is to preserve and to enhance shareholders' value at an overall acceptable level of risk. In order to manage the risks in our many business activities, we have established a comprehensive risk management framework that includes the identification of the risks, the measurement, control and monitoring of risk, and regular reporting to senior management and to the Board of Directors.

Definition of Risk, Guiding Principles and the Objective for Risk Management

Risk is defined *as the probability or likelihood that the expected outcome of a plan, a strategy or a course of action does not materialize resulting in the possibility of loss.*

Our guiding principles for risk management are to protect policynolders' interests, to preserve and to enhance shareholder value and to apply prudence and the appropriate level of conservatism in making business decisions. This requires us to have the optimum balance of risk and reward to ensure value for our stakeholders including, customers/policyholders, shareholders, employees and suppliers.

The objective of risk management is not to eliminate risk but to do the things necessary to reduce the level of uncertainty to an acceptable level in order to enhance company value while preserving safety and soundness. Risk management strategies, policies and procedures reduce the probability of an adverse outcome by establishing the acceptable boundaries for risk taking, including establishing risk tolerance limits with mechanisms to measure and to monitor risks and to ensure compliance with these strategies, policies and procedures. Where appropriate, risk management policies are aligned with other Company policies. People skilled in assessing and managing risk and the availability of timely and accurate information are critical success factors for risk management.

Responsibilities for Risk Management

The responsibility for risk management is shared between the Board of Directors and management.

Board of Directors

The Board of Directors has overall responsibility for reviewing and approving the risk management policies and procedures recommended by management and ensuring adherence thereto. In order to facilitate this, the following Board Committees have responsibility for various aspects of risk management:

The Audit and Risk Management Committee is responsible for the oversight of the risk management policies and procedures. The Committee meets regularly with management and the Internal Auditor to discuss the effectiveness of risk management policies and procedures, including internal controls, and to evaluate compliance with these policies and procedures.	**The Conduct Review Committee** is responsible for ensuring that effective risk management procedures are in place and are followed with respect to related party transactions, conflict of interest, use of confidential information, insider trading and other aspects of corporate conduct.	**Other Board committees** include the Corporate Governance Committee, the Human Resource Committee and the Pension Committee. Each has specific risk management responsibilities relating to its respective roles, which are outlined in the Corporate Governance section of the Annual Report.

Management Committees

Management is responsible for developing appropriate risk management policies, guidelines and strategies and ensuring appropriate procedures and processes are established and followed for the management, measurement, oversight and reporting of risk. There are two senior management committees that have responsibility for various aspects of risk management as follows:

The Risk Management Committee is comprised of senior management and is responsible for ensuring appropriate risk management policies and procedures have been established and for recommending these policies to the Board for approval. The Committee also ensures that appropriate monitoring and reporting procedures are in place and provides oversight with respect to compliance with the risk management policies. The Committee reports quarterly to the Audit and Risk Management Committee of the Board of Directors.

The Finance Committee is comprised of senior management and is responsible for developing, managing and ensuring compliance with the financial policies of the Company.

Categories of Risk

Asset/Liability	Insurance	Business
Market risk	**Product design and pricing risk**	**Operational risk**
Interest rate risk	**Underwriting and liability risk**	**Legal and regulatory risk**
Capital market, equity, real estate risk		**Strategic risk**
Foreign currency risk		
Credit risk		
Investment/counterparty		
Reinsurance		
Liquidity risk		

The risks that the Company is subject to and brief descriptions of our processes to manage these risks are as follows:

Market risk

Market risk is the risk that the investment of premiums and capital do not produce the expected returns or suffer losses. The Investment Policy is intended to manage this risk by outlining the investment philosophy and establishing the investment standards for credit quality, monetary limits and concentration limits for all equity, real estate, mortgage, bond and derivative investments. Adherence to these standards is monitored regularly and the results are reported quarterly to the Board of Directors. The Investment Policy is also reviewed annually by the Finance Committee and by the Audit and Risk Management Committee of the Board.

Interest rate risk *is the risk of loss due to the exposure of assets and liabilities to fluctuations in interest rates, including the risk of loss due to the effect of changing interest rates if the future cash flows from the assets supporting liabilities do not match the timing and amount of the expected policy payments.*

Interest rate risk is managed through a number of means, including the purchase and sale of conventional bonds, interest rate futures and managing cash positions. In addition, the Company maintains separate funds of assets to support associated liabilities by line of business and by country. The cash outflows from the liabilities are matched, wherever possible, with equally predictable cash inflows from invested assets through a defined asset/liability management process. Each fund has an appropriate matching

policy, which requires the level of mismatch to be kept within prescribed limits. The degree of interest rate risk is measured by the mismatch between the assets and the liabilities of the Company. This matching policy is a critical element of the Investment Policy. The matching of assets to liabilities is monitored regularly by a separate internal group dedicated to this purpose.

Proper matching of assets and liabilities is particularly critical for the funds supporting annuity and pension products, which constitute approximately 58% (59% in 2000) of the Company's general fund actuarial liabilities. The timing and amount of the Company's obligations under annuity and pension products can be determined with reasonable certainty and the mismatch positions of the assets supporting these liabilities is monitored quarterly to measure compliance with the limits set out in the Company's Investment Policy. Interest rate risk for annuity and pension products is measured through the use of duration mismatch and interest rate scenario analysis.

Duration mismatch

Duration is defined as the time weighted average life of an asset or liability and measures the sensitivity of the economic value of assets and liabilities to changes in interest rates. For example, the economic value of assets or liabilities with longer terms is more sensitive to changes in interest rates than the economic value of assets or liabilities with shorter terms. This is reflected in the duration measure. The degree of mismatch can be measured as the difference between the duration of assets and the duration of liabilities. When the duration of assets exceeds the duration of liabilities, an increase in interest rates will result in a decrease in economic value. Conversely, when the duration of assets is less than the duration of liabilities, a decrease in interest rates will result in a decrease in economic value. See note 4(a)(i) to the Consolidated Financial Statements for the duration mismatch for the years ended December 31, 2001 and 2000.

Net present value

In addition to duration mismatch, interest rate risk is also measured in terms of the net present value (NPV) effect of interest rate changes. First, the NPV of future asset cash flows less future liability cash flows is determined using the interest rates in effect at the reporting date. The NPV is then recalculated assuming an immediate 1% parallel increase in interest rates and an immediate 1% parallel decrease in interest rates. The resulting change in NPV represents a measure of the degree of interest rate risk associated with a 1% parallel change in interest rates. See note 4(a)(ii) to the Consolidated Financial Statements for the impact on NPV of a 1% parallel change in interest rates.

For the life insurance business, the Company guarantees cash surrender values on most of the life insurance products. The Company would be exposed to losses if policyholders surrendered their policies during a period when interest rates were rising significantly. The Company has also provided interest rate guarantees on certain variable annuity and insurance contracts and, as such, is exposed to losses if interest rates fall below certain levels. To cover this risk, derivative contracts are used to hedge some of the exposure and prudent provisions are made for these guarantees in the actuarial liabilities. Specified amounts of capital are held to cover these risks as required by MCCSR.

The anticipated investment return on the assets supporting Company equity may be at risk of decline if interest rates fall below certain levels. To control this risk, the invested assets are diversified, as required by the Investment Policy, by investment type, limit, quality and geographic location. In addition, derivative contracts are used to hedge some of the exposure.

Capital market, equity and real estate risks *are the risk that the value of the portfolio of securities, including derivatives, will decrease as a result of adverse changes in market prices as well as fluctuations in the value of mortgages and real estate holdings.*

Market risk is most prevalent for investments in securities, derivative financial instruments and real estate. Fluctuations in the value of these investments may potentially impact Company equity and the fee income earned on the segregated funds. The Company's exposure to investments is managed through established limits relative to the amount of investments supporting liabilities and shareholders' equity. Holdings are also diversified by industry type, corporate group and different geographic markets.

Foreign currency risk *is the exposure to potential losses due to adverse movements in foreign currency rates, including the result of currency mismatches between assets and liabilities and the cash flows therefrom.*

As a multinational company that manages operations in many currencies and reports its results in Canadian dollars, there is an ongoing exposure to foreign currency risk. The exposure of the operating funds to this risk is managed by closely matching operating fund assets and liabilities by currency in each country of operation.

The Company also holds assets supporting its equity in the currencies of each jurisdiction in which it operates. This represents an exposure to movements in foreign currency rates, as there are virtually no foreign currency liabilities matching these assets. The amount of assets supporting equity that is denominated in each of these foreign currencies is monitored closely and the exposure is managed by hedging a portion of these foreign denominated assets through the use of forward foreign exchange contracts as described below under the Derivative Financial Instrument Management section. See note 4(b) to the Consolidated Financial Statements for the impact on retained earnings and net income of a 1% strengthening of the Canadian dollar relative to the currencies in the jurisdictions in which the Company operates.

Credit risk

Credit risk *is the risk that debtors, counterparties or intermediaries are unable or unwilling to fulfil their obligations and includes the risk associated with the concentration of investment holdings in specific jurisdictions, industries or investees.*

The Investment Policy has been established with an objective to maintain a well diversified portfolio of relatively high overall quality. This objective is accomplished by setting standards relating to the quality of assets and limits on the concentration of credit risk by issuer, ratings, industry sector and geographic location.

Limits have been set for bond and mortgage portfolio qualities. Weighted average rating minimums of A and BBB– as defined by Standard & Poor's have been set for the bond and mortgage portfolios, respectively. The combined credit quality of all credit instruments, including the credit equivalent exposure to derivatives, is required to be at least A–. In addition, the Investment Policy places limits on the permitted proportion of high yield/lower rated bonds in each jurisdiction.

The Investment Policy relating to concentration of credit risk is to generally have the same level of country credit exposure, relative to combined liabilities and equity in each of the jurisdictions in which the Company operates. Various limits have also been established for percentages of mortgages, bonds and other loans that can be held by property type or by industry group for the proportion of non-government insured mortgages to total loans and the proportion of loans of whatever type secured by real estate to total loans made by the Company. Finally, there is an overall corporate concentration limit on the Company's combined lending and equity positions in any one group of closely related corporate entities to 25% of the Company's equity.

While reinsurance is used to manage Underwriting and Liability Risk, the use of reinsurance does not relieve the Company of its primary obligations to its policyholders. Therefore, the Company is exposed to credit risk with respect to amounts ceded to reinsurers. In order to minimize the exposure to this risk, the Company generally only enters into reinsurance contracts with properly licensed, well established and financially strong reinsurers with a financial rating not more than one level lower than its own rating. Any proposal to enter into a contract with a reinsurer having a lower rating must first be approved by the Appointed Actuary.

The Company has made provisions in its Consolidated Balance Sheets for credit losses in two ways:

(i) Specific provisions for assets that are currently impaired have been included through reductions in the values of the underlying assets.

(ii) Provisions have been included in the actuarial liabilities for assets that may become impaired in the future.

The amounts for these provisions are identified in note 6(b) to the Consolidated Financial Statements.

Liquidity risk

Liquidity risk *is the risk that there are insufficient funds available to honour all anticipated cash flow commitments (both on and off balance sheet) as they fall due and any unanticipated cash demands.*

Liquidity risk is managed by closely matching the amount, currency and duration of asset, associated liability and cash flows within preset limits. The level of this mismatch is regularly monitored and includes the effect of all outstanding derivative financial instrument positions. Additionally, the Company maintains an appropriate level of liquidity by ensuring that a prescribed percentage of its assets are held in marketable investments.

Derivative Financial Instrument Management

Derivative financial instruments are financial contracts that derive their value from the value of the underlying financial assets, interest rates, foreign currency rates or stock/bond/commodity indices. The increased volatility and complexity of the financial markets over the last two decades has led to increased risk levels because of exposures to fluctuations in credit, interest rates, equity prices and foreign currency rates. These increased risk levels have necessitated the development of a sophisticated, diverse, cost effective and liquid derivative market that derives its values from the changes in the values of the underlying financial assets, interest rates, foreign currency rates or stock/bond indices. Derivatives include financial futures, forwards, options and swaps, or any combination thereof. The Company is a limited end-user of derivatives and is not a creator or dealer in these instruments. Derivative instruments are used for both hedging and non-hedging purposes such as asset/liability, interest rate, equity market price or foreign currency exchange management; or to synthetically replicate an investment for those situations where it is deemed to be more effective from a cost and flexibility perspective as compared to directly investing in that particular type of investment.

Derivatives are subject to Board approved investment policies. Those policies limit notional amounts, potential exposures or statement values to general fund assets and address interest rate, foreign currency and credit risks. In addition, the Company is only permitted to deal with counterparties with a credit rating of A+ or higher as defined by Standard & Poor's. Notional amounts by term and by category and associated credit risk exposures are described in note 17 to the Consolidated Financial Statements.

Insurance risks

Product design and pricing risk *is the risk that the price levied for a product, service and/or block of insurance products is insufficient to ensure an adequate return on capital and includes the risk of poorly designed products due to insufficient market research or the impact that a new product introduction will have on the sale of existing or other new products.*

The process of pricing products includes the estimation of many factors including future investment yields, mortality and morbidity experience, expenses, policy lapse rates and taxes. Pricing risk is the risk that actual experience in the future will not develop as estimated at the time of pricing the products. Some products are designed such that adjustments to premiums or benefits can be made for variations in experience, while for other products no such adjustment is possible.

Pricing risk is managed by setting standards and guidelines for pricing. These standards and guidelines cover pricing methods, the setting of assumptions, profit margin objectives, required scenario analysis and documentation. Pricing assumptions are compared against actual experience on an ongoing basis. Senior financial managers in each operating division are responsible for ensuring that the design and pricing of each new product, and revisions to assumptions for existing products, are consistent with the standards and guidelines.

Entry into new lines of business, unusual risks not currently offered, or deviations from pricing policy are subject to prior approval of both the Company's Appointed Actuary and the head of the particular division. In these instances, reinsurance may also be used to effectively manage the risk.

Underwriting and liability risk *is the exposure to financial loss resulting from the selection and approval of risks to be insured, the adjudication of claims, and the management of contractual and non-contractual product options. This risk also includes unfavourable mortality, morbidity, surrender or lapse experience or unfavourable interest rates as they relate to the actuarial liabilities recorded by the Company.*

The Company's philosophy with respect to underwriting is to prudently manage the risks with due consideration given to the Company's expertise, its ability to absorb losses, and expected returns. For existing products, where the Company has considerable expertise in both underwriting and claims, it will generally manage the risk internally. Where existing products have significant loss exposure, some form of excess loss reinsurance will generally be put in place. For newer product areas in which the Company has little experience in underwriting and claims, additional reinsurance may be obtained and the advice of industry experts will generally be sought. It is the Company's policy in underwriting cases to avoid excessive exposure with respect to any specific risk profile. In general, concentration risk is avoided by operating internationally and by underwriting a wide range of cases and products within each jurisdiction.

In addition to establishing appropriate underwriting criteria to determine the insurability of applicants, insurance risk is managed by limiting the Company's exposure to life and health claims. The claims risk for the Company is limited to its retention limit of $5 million for any individual life claim and various limits for health claims, not exceeding this limit, depending on the type of coverage. To ensure these limits continue to be appropriate, management and the Board of Directors periodically review the policies relating to the maximum risks the Company will assume. Claims in excess of these retention limits are reinsured to outside reinsurers. The Company has also maintained catastrophic reinsurance coverage with outside reinsurers in the event of a loss of three or more lives in the same catastrophe. Effective January 1, 2002, the Company did not renew its catastrophe reinsurance coverage as, in management's view, recent price increases and coverage restrictions meant this type of reinsurance coverage was no longer a reasonable value. Management intends to monitor the catastrophe coverage market and may again acquire this coverage should reasonable amounts of coverage become available at more attractive prices.

Business risks

Operational risk *is the risk that arises from problems in the performance of business functions or processes and can result from deficiencies or breakdowns in internal controls or processes, technology failures, human errors or dishonesty and natural disasters.*

Standards and procedures have been established to ensure that appropriate and effective internal controls are developed and implemented to manage operational risks and that reliable and comprehensive systems are in place to properly monitor the effectiveness of those controls on a regular basis. The management team actively manages the business operations and has implemented organizational and procedural controls supported by information systems to manage the exposure to operational risk. In addition, the Company has procedures in place in all of its jurisdictions to ensure its continuing operations and to minimize any disruption in service in the event of a natural or other disaster. These procedures are reviewed and tested on a regular basis.

An independent internal audit function, reporting to the Audit and Risk Management Committee of the Board, monitors the effectiveness of these organizational and procedural controls, including compliance with OSFI's Standards of Sound Business and Financial Practices and the Quebec Guideline for Sound Risk Governance.

Legal and regulatory risk *arises as a result of non-conformance with laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which a company operates as well as the risk of loss resulting from an existing or proposed business arrangement.*

The Company is subject to extensive regulatory requirements and oversight in all jurisdictions in which it operates. In addition, in the normal course of business, the Company may be exposed to liabilities arising from various litigations.

The Company has established practices and procedures to manage legal and regulatory risk effectively in each jurisdiction in which it operates. In order to achieve this, the legal and compliance departments in each operating division interpret local laws, rules and regulations, as well as global policies and procedures, to protect the Company and its shareholders from legal or regulatory liabilities. Corporate Legal and Compliance departments are in place at head office to support the local legal and compliance departments. These Corporate departments provide the Board of Directors with regular objective assessments of the risks facing the company from a legal and regulatory perspective.

Strategic risk *arises from the inability to adequately plan and implement appropriate business strategies, decision-making and resource allocations, as well as, an inability to adapt to changes in the business environment, including ensuring products and customer service are competitive and meet customer needs.*

In each of its operations, the Company increasingly competes with large, diversified and well-capitalized financial services companies such as other life insurance companies, banks, investment dealers and mutual fund companies. Competition may be based on the types of products sold or services provided, price, quality of service or the relative financial strength of the Company.

The Company has a rigorous and dynamic financial and business planning process in place. Planning is completed at all business levels. Business plans are presented annually to the Board of Directors and include financial and other goals along with measurement against targets. The Company also regularly conducts market analysis to ensure it remains competitive within the current business environment. Through the Company's commitment to customer service excellence, service standards are developed and are monitored by management to ensure customer satisfaction.

Responsibilities for Financial Reporting

The Consolidated Financial Statements of Canada Life Financial Corporation ("the Company"), as well as all the information in the annual report, are the responsibility of management. The Consolidated Financial Statements for the Company have been reviewed by the Audit and Risk Management Committee and approved by the Board of Directors.

The Consolidated Financial Statements for the Company have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI). The Consolidated Financial Statements contain some items that reflect management's best estimates and judgements. Where alternative accounting methods exist, management has chosen those deemed most appropriate in the circumstances to ensure the Consolidated Financial Statements are presented fairly, in all material respects. Moreover, management has ensured that all financial information in this annual report is consistent with that in the Consolidated Financial Statements.

The Company maintains a system of internal accounting and administrative controls in accordance with OSFI's Standards of Sound Business and Financial Practices and the Quebec Guideline for Sound Risk Governance. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and forms a proper basis for the preparation of the Consolidated Financial Statements. The Company's internal audit department assesses the systems of internal control on an ongoing basis.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for reviewing the Consolidated Financial Statements of the Company. The Board carries out this responsibility principally through its Audit and Risk Management Committee of independent Directors. The Audit and Risk Management Committee meets periodically with management and the internal and external auditors to discuss auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the Consolidated Financial Statements and the reports of the external auditors and the Appointed Actuary.

The Appointed Actuary is appointed by the Board of Directors and is required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form the opinion. The Appointed Actuary makes use of the internal and external auditors' work in respect of the accuracy of the policy data used in the valuation. The Appointed Actuary is required each year to analyze the financial condition of the Company and to prepare a report for the Board of Directors. For 2001, this analysis tested the capital adequacy of the Company until December 31, 2005 under adverse economic and business conditions.

Ernst & Young LLP have been appointed the external auditors for the Company. It is the external auditors' responsibility to report to the shareholders of the Company on the fairness of presentation of the Company's Consolidated Financial Statements. The external auditors make use of the Appointed Actuary's work in their audit of the Company. The Auditors' Report for the Company outlines the scope of their audit and their opinion. The external auditors have full and unrestricted access to the Audit and Risk Management Committee of the Company.

February 4, 2002

D a Nield

D. A. Nield
Chairman of the Board,
President and Chief Executive Officer

P. G. Crowley
Executive Vice-President
and Chief Financial Officer

Appointed Actuary's Report

To the Policyholders, Shareholders and Directors of Canada Life Financial Corporation:

I have valued the policy liabilities of Canada Life Financial Corporation for its Consolidated Balance Sheets as at December 31, 2001 and their change in its Consolidated Statements of Net Income and the Consolidated Statements of Equity for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the Consolidated Financial Statements fairly present the results of the valuation.

D. A. Loney
Fellow, Canadian Institute of Actuaries
Toronto, Canada, February 4, 2002

Auditors' Report

To the Shareholders of Canada Life Financial Corporation:

We have audited the Consolidated Balance Sheets of Canada Life Financial Corporation and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 2001 and 2000 and the Consolidated Statements of Net Income, Equity, Cash Flows, and Changes in Segregated Funds for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company and of the segregated funds as at December 31, 2001 and 2000 and the results of its operations and its cash flows and changes in segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

As disclosed in note 2(a)(i) to the Consolidated Financial Statements, new Canadian generally accepted accounting principles required the Company to change its method of accounting for certain segregated funds and group life and health insurance products. As well, as disclosed in note 19(b) to the Consolidated Financial Statements, new United States generally accepted accounting principles required the Company to change its method of accounting for the policyholders' dividend obligation and for derivatives.

Ernst & Young LLP

Chartered Accountants
Toronto, Canada
February 4, 2002

Consolidated Statements of Net Income

For the years ended December 31 *(in millions of Canadian dollars, except per share amounts)*	**2001**	2000 *(restated – note 2(a))*
REVENUES		
Premiums		
Participating insurance and annuities	**$ 768**	$ 786
Non-participating:		
Annuities	**2,272**	1,742
Individual life and health insurance	**516**	480
Group life and health insurance	**1,633**	1,391
Reinsurance	**169**	153
General insurance	**—**	124
	5,358	4,676
Net investment income *(note 6(c))*	**2,241**	2,306
Fee and other income *(note 2(n))*	**465**	479
	8,064	7,461
EXPENDITURES		
Payments to policyholders and beneficiaries		
Life, health and general benefits	**1,987**	1,670
Annuity payments	**1,246**	1,128
Maturities, surrender payments and other	**1,680**	1,837
Participating policyholder dividends	**305**	289
	5,218	4,924
Increase in actuarial liabilities *(notes 2(a) and 7(a))*	**972**	707
Commissions	**461**	409
General expenses	**794**	743
Premium and other taxes	**64**	68
Interest expense *(note 8)*	**39**	39
	7,548	6,890
Net income before income taxes and goodwill expense	**516**	571
Income taxes *(note 9)*	**153**	195
Net income before goodwill expense	**363**	376
Goodwill expense *(notes 2(l) and 9(d))*	**25**	24
Net income	**338**	352
Participating policyholders' net loss	**(4)**	(4)
Shareholders' net income	**$ 342**	$ 356
Earnings per common share *(note 12)*		
Basic and diluted	**$ 2.13**	$ 2.22

(see accompanying notes)

Consolidated Balance Sheets

As at December 31 *(in millions of Canadian dollars)*	**2001**	2000 *(restated – note 2(a))*
ASSETS		
General fund		
Invested assets *(note 6(a))*		
Bonds	**$ 19,046**	$ 17,681
Mortgages	**7,996**	7,583
Common and preferred stocks	**2,475**	2,002
Real estate	**941**	851
Policy loans	**1,070**	988
Short-term investments	**149**	373
Cash and cash equivalents *(note 2(o))*	**993**	1,051
Other	**775**	594
Total invested assets	**33,445**	31,123
Premiums receivable	**123**	160
Investment income due and accrued	**369**	388
Goodwill *(note 2(l))*	**137**	151
Other assets *(note 9(c))*	**877**	914
Total general fund	**$ 34,951**	$ 32,736
Segregated funds	**$ 22,090**	$ 22,383
LIABILITIES AND EQUITY		
General fund		
Policy liabilities		
Actuarial liabilities *(notes 2(a), 3 and 7)*	**$ 27,169**	$ 25,481
Benefits payable and provision for unreported claims	**645**	449
Policyholders' amounts left on deposit	**426**	428
Provision for future policyholder dividends and experience rating refunds	**372**	328
Total policy liabilities	**28,612**	26,686
Net deferred gains *(note 6(d))*	**1,491**	1,543
Other liabilities *(note 10)*	**875**	1,021
	30,978	29,250
Subordinated debentures *(note 8)*	**550**	550
Equity		
Participating policyholders' equity	**40**	44
Shareholders' equity		
Preferred shares *(note 11)*	**145**	—
Common shares *(note 11)*	**317**	317
Retained earnings	**2,921**	2,575
	3,423	2,936
Total general fund	**$ 34,951**	$ 32,736
Segregated funds	**$ 22,090**	$ 22,383

(see accompanying notes)

On behalf of the Board:

D. A. Nield
[illegible]
[illegible]

T. Iain Ronald
Chairman of the Audit and
Risk Mana[illegible]

Consolidated Statements of Equity

For the years ended December 31 *(in millions of Canadian dollars)*	2001	2000
PARTICIPATING POLICYHOLDERS' EQUITY		
Balance, beginning of year	**$ 45**	$ 49
Participating policyholders' net loss	**(4)**	(4)
Balance, end of year	**41**	45
Currency translation		
Balance, beginning of year	**(1)**	(2)
Change for the year	**—**	1
Balance, end of year	**(1)**	(1)
Total participating policyholders' equity	**$ 40**	$ 44
SHAREHOLDERS' EQUITY		
Share capital		
Preferred shares *(note 11)*		
Balance, beginning of year	**$ —**	$ —
Issue of preferred shares	**145**	—
Balance, end of year	**$ 145**	$ —
Common shares *(note 11)*		
Balance, beginning and end of year	**$ 317**	$ 317
Retained earnings		
Balance, beginning of year as reported	**$ 2,652**	$ 2,571
Change in accounting policy *(note 2(a)(i))*	**—**	(198)
Balance, beginning of year as restated	**2,652**	2,373
Shareholders' net income as reported	**342**	385
Change in accounting policy *(note 2(a)(i))*	**—**	(29)
Shareholders' net income as restated	**342**	356
Dividends paid to shareholders	**(84)**	(77)
Balance, end of year	**2,910**	2,652
Currency translation account		
Balance, beginning of year as reported	**(77)**	(58)
Change in accounting policy *(note 2(a)(i))*	**—**	6
Balance, beginning of year as restated	**(77)**	(52)
Change for the year	**88**	(25)
Balance, end of year	**11**	(77)
Total retained earnings	**$ 2,921**	$ 2,575
Total equity	**$ 3,423**	$ 2,936

(see accompanying notes)

Consolidated Statements of Cash Flows

For the years ended December 31 *(in millions of Canadian dollars)*	2001	2000 *(restated – note 2(a))*
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 338**	$ 352
Items not affecting cash and cash equivalents		
Increase in actuarial liabilities and other policy liabilities	**1,167**	708
Amortization of net deferred gains and amortization of net discounts on bonds and mortgages	**(282)**	(336)
Other, including future income taxes	**68**	64
	1,291	788
Net change in other operating assets and liabilities		
Other assets	**21**	(22)
Other liabilities	**(151)**	13
	(130)	(9)
Increase due to operating activities	**1,161**	779
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales, maturities and scheduled redemptions of:		
Bonds	**21,570**	9,836
Mortgages	**2,672**	3,460
Common and preferred stocks	**869**	1,223
Real estate	**66**	394
Other investments	**119**	174
Purchases of:		
Bonds	**(22,248)**	(10,384)
Mortgages	**(2,852)**	(3,781)
Common and preferred stocks	**(1,278)**	(1,116)
Real estate	**(111)**	(156)
Other investments	**(294)**	(105)
Net short-term investments	**227**	(251)
Net policy loans	**(45)**	(27)
Acquisition		
Cash and cash equivalents	**—**	176
Decrease due to investing activities	**(1,305)**	(557)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to common shareholders	**(84)**	(77)
Issue of preferred shares *(note 11)*	**145**	—
Increase (decrease) due to financing activities	**61**	(77)
Effect of changes in exchange rates on cash and cash equivalents	**25**	(8)
Net increase (decrease) in cash and cash equivalents for the year	**(58)**	137
Cash and cash equivalents, beginning of year	**1,051**	914
Cash and cash equivalents, end of year	**$ 993**	$ 1,051
Supplementary disclosure of cash flow information:		
Interest paid on subordinated debentures and other liabilities	**$ 39**	$ 39
Income taxes paid, net of refunds	**$ 172**	$ 97

(see accompanying notes)

Consolidated Statements of Changes in Segregated Funds

For the years ended December 31 *(in millions of Canadian dollars)*	**2001**	2000
ADDITIONS TO SEGREGATED FUNDS		
Deposits and transfers from the general fund	**$ 3,828**	$ 3,692
Net investment income	**438**	636
Net decrease in fair value of investments	**(2,592)**	(482)
	1,674	3,846
DEDUCTIONS FROM SEGREGATED FUNDS		
Withdrawals, benefit payments and transfers to the general fund	**2,033**	2,690
Operating expenses	**353**	379
Tax recovery	**(60)**	(32)
Currency translation adjustment	**(359)**	301
	1,967	3,338
Net additions (deductions) to segregated funds for the year	**(293)**	508
Segregated funds, beginning of year	**22,383**	21,875
Segregated funds, end of year	**$ 22,090**	$ 22,383

(see accompanying notes)

Consolidated Statements of Segregated Funds Net Assets

As at December 31 *(in millions of Canadian dollars)*	**2001**	2000
Bonds	**$ 2,219**	$ 2,445
Mortgages	**8**	8
Common and preferred stocks	**17,769**	18,247
Real estate	**788**	747
Cash and short-term investments	**1,536**	1,211
Investment income due and accrued	**20**	40
Tax liability	**(61)**	(63)
Due to brokers and others	**(189)**	(252)
	$ 22,090	$ 22,383

(see accompanying notes)

1 Nature of Operations and Business Activities

Canada Life Financial Corporation ("the Company"), incorporated on June 21, 1999, was formed for the purpose of becoming a publicly traded holding company of The Canada Life Assurance Company (CLA), which demutualized on November 4, 1999. Both companies are registered under the Insurance Companies Act, Canada (ICA), which is administered by the Office of the Superintendent of Financial Institutions, Canada (OSFI). The Company offers insurance and other protection and wealth management products and services to individuals and groups, including reinsurance services, primarily in Canada, the United Kingdom, the United States and the Republic of Ireland, and in several other jurisdictions.

There were no material acquisitions or dispositions during 2001. In 2000, the Company sold its 100% interest in its general insurance subsidiary, Canada Life Casualty Insurance Company. Included in the December 31, 2000 Consolidated Statement of Net Income was revenue of $132 million and net income of $10 million relating to the general insurance subsidiary and included in fee and other income, a gain of $18 million, net of tax from the disposition of this subsidiary.

The 2000 comparative figures have been reclassified to conform to presentation changes adopted in 2001.

2 Significant Accounting Policies

The Company prepares its Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles (GAAP) for life insurance enterprises, including the accounting requirements of OSFI. There are no differences between GAAP and OSFI accounting requirements. See note 19 for a description and reconciliation of differences between GAAP in Canada and the United States.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the Consolidated Financial Statements and income and expenses during the reporting period. Actual results could differ from these estimates. The most significant estimates are related to the determination of actuarial liabilities which are discussed in note 3.

The significant accounting policies followed in the preparation of these Consolidated Financial Statements are summarized as follows:

(a) Accounting changes for actuarial liabilities

During 2001, the Company adopted the new Standards of Practice for the Valuation of Policy Liabilities of Life Insurers ("Life SOP") issued by the Canadian Institute of Actuaries (CIA). It also adopted amendments to accounting recommendations with respect to the valuation of actuarial liabilities issued by the Canadian Institute of Chartered Accountants (CICA).

The CIA and CICA recommendations require the use of the Canadian Asset Liability Method (CALM) for the valuation of actuarial liabilities. CALM introduces the use of economic scenario testing for the determination of actuarial liabilities for all lines of business. Previously, such approaches were used for annuity business only. The new standards have been implemented by the Company as follows:

(i) Changes in accounting policy

The new standards result in a change in the method for determining general fund actuarial liabilities related to certain segregated funds and group life and health insurance products, details of which are disclosed in note 3.

This portion of the new standards is being adopted as a change in accounting policy and is applied retroactively with the restatement of prior periods. The impact of this change on the Consolidated Statement of Equity has resulted in a decrease of $198 million in the 2000 opening shareholders' retained earnings and an increase of $6 million in the 2000 opening Currency Translation Account (CTA). The impact of this change on the Consolidated Balance Sheets is a decrease of $47 million (cumulative increase of $239 million as at December 31, 2000) in actuarial liabilities, and a decrease of $11 million (increase of $24 million for 2000) in the future income tax assets. The change is also reflected on the Consolidated Statements of Net Income through a decrease of $47 million (increase of $35 million for 2000) in the change in actuarial liabilities, and an increase of $11 million (decrease of $6 million for 2000) in income taxes.

(ii) Changes in accounting estimates

Excluding the changes with respect to actuarial liabilities related to certain segregated funds and group life and health insurance products, the remaining impact of adopting CALM is a refinement to existing practice and is accordingly accounted for as a change in estimate. The remainder of the new standards were adopted on October 1, 2001 and applied prospectively. These changes do not have a material impact on these Consolidated Financial Statements.

(b) Basis of consolidation

These financial statements consolidate the operating results and financial position of the Company and its subsidiaries.

(c) Participating account

The ICA requires the Company to maintain two accounts within its general fund: one for its participating policies (the participating account) and one for all of its other business (the shareholders' account). Through its participating account, the assets, liabilities, income and equity relating to the Company's participating policies are recorded separately. The participating account is composed of three sub-accounts, which were created upon demutualization in November 1999: a "closed block sub-account", an "ancillary sub-account" and a "new business sub-account".

The closed block sub-account is comprised of the liabilities, in respect of participating policies issued or assumed by the Company prior to demutualization, for guaranteed benefits, including riders or supplementary benefits, expenses and

taxes, policyholders' reasonable expectations for dividends and other non-guaranteed benefits determined using best estimate assumptions. If at any time the value of the assets allocated to the closed block sub-account were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of the closed block and the future reasonable net income expectations of the policyholders, assets having a sufficient value to rectify the situation would be transferred, first from the ancillary sub-account and then, if such deficiency were expected to be permanent, from the shareholders' account. Any such transfers from the shareholders' account would be recorded as a charge to the shareholders' net income.

The ancillary sub-account contains the margins for adverse deviations in respect of the participating policies contained in the closed block sub-account. Assets that, in the opinion of the Appointed Actuary, are in excess of those required to support the ancillary sub-account liabilities will be transferred periodically from the ancillary sub-account to the shareholders' account. Such amounts will be recorded as shareholders' net income.

The new business sub-account is comprised of all liabilities in respect of new participating policies issued on or after demutualization. On demutualization, $50 million of seed capital was transferred from the retained earnings of the shareholders' account to the new business sub-account. Subject to approval by OSFI, the seed capital amount, together with a reasonable rate of return, may be transferred to the shareholders' account once the value of the assets allocated to the new business sub-account exceeds the value, in the opinion of the Appointed Actuary, required to provide for the new business sub-account liabilities. Transfers of seed capital to the shareholders' account would be returns of capital and would be recorded as adjustments to shareholders' retained earnings. A reasonable rate of return on seed capital will be recognized as income in the shareholders' account and an expense in the participating account. In addition, a percentage of the net income of the new business sub-account may be transferred to the shareholders' account as permitted by regulation.

(d) Valuation of invested assets held for the general fund

(i) Bonds and mortgages

Bonds, including asset-backed fixed term securities, and mortgages are carried at amortized cost.

The difference between the proceeds on the sale of a bond or mortgage prior to maturity and its carrying value is considered to be an adjustment of future portfolio yield. This difference is deferred on the Consolidated Balance Sheets and amortized to net income over the remaining term to maturity.

(ii) Stocks and real estate

Portfolio investments in stocks and real estate, which include Company-occupied premises, are carried at a value that is adjusted toward fair value each year. The adjustment for stocks is 15% per annum of the difference between carrying value and year-end fair value. The fair value adjustment for real estate is 10% per annum of the difference between carrying value and appraised value. Appraised value is determined annually based on a combination of internal appraisals established by the Company and independent appraisals. All real estate properties are independently appraised at least once every three years.

Net realized gains and losses on the disposal of stocks and real estate are deferred on the Consolidated Balance Sheets and are amortized to net income on a declining balance basis at 15% per annum for stocks and at 10% per annum for real estate.

(iii) Policy loans

Policy loans are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

(iv) Other invested assets

Other invested assets generally include the Company's investment in equipment leases, limited partnerships, and equity investments in which the Company has the ability to exercise significant influence. Equipment leases are carried at cost less accumulated depreciation. Equity investments and limited partnerships are carried at cost plus the Company's pro rata share of the investees' net income (loss), less any distributions paid to the Company during the year.

(v) Impaired investments and provisions for losses

Impaired investments include all loans with payments of 90 days or more in arrears unless their repayment has been insured by a government authority or representative thereof. Impaired investments also include loans that are not in arrears but where management has determined that an impairment in value exists.

The carrying value of the Company's investment in a bond or mortgage is reduced by a specific provision for loss to the extent an impairment in value is deemed to exist. A specific provision for loss is established whenever there is a decline in the value of a bond, which is other than temporary, or when the recovery of the principal and accrued interest on a mortgage is in doubt and the value of the underlying security is also impaired. A specific provision for loss is only reduced as a result of a write-off or sale of the impaired investment, or if the conditions that caused the impairment no longer exist. Accrual of interest is discontinued and previously accrued interest is reversed on impaired bonds and impaired mortgages where payments are 90 days or more in arrears.

Property that is acquired due to a mortgage foreclosure and held for resale is classified as real estate and is valued at the lower of the amortized cost of the mortgage at the time of foreclosure and net realizable value of the property. Any losses on foreclosure and subsequent adjustments to net realizable value are recognized in net income immediately.

The carrying value of the stock portfolio or the real estate portfolio is written down to fair value immediately if there is an other than temporary decline in the value of either portfolio. The Company treats the stock and real estate portfolios as separate portfolios for the purpose of assessing whether permanent impairment exists.

In addition to specific provisions noted above for existing asset impairments, the Company provides for potential future asset defaults through the reduction of the assumed investment yields used in the calculation of the actuarial liabilities as disclosed in note 3 and as required by the CIA and OSFI.

(e) Fair value

(i) Bonds and mortgages

The fair value of publicly traded bonds and asset-backed fixed term securities is determined using quoted market prices. The fair value of bonds and mortgages that are not publicly traded is determined by discounting the expected future cash flows related to these loans at market interest rates.

(ii) Common and preferred stocks

The fair value of common and preferred stocks is determined using quoted market prices. The fair value of common and preferred stocks that are not publicly traded is determined by discounting expected future cash flows at risk-adjusted rates of return.

(iii) Real estate

The fair value of real estate is determined based on the appraised value as described in note 2(d)(ii).

(iv) Other invested assets and policy loans

The fair value of other invested assets and policy loans is generally estimated to equal carrying value.

(v) Subordinated debentures

The fair value of the Company's subordinated debentures is determined based on the value in the market for equivalently rated securities of similar terms.

(f) Segregated funds

The Company manages certain funds that are segregated from the general fund of the Company. This business includes Canadian segregated annuity funds; unit-linked life insurance and annuity business in the United Kingdom and the Republic of Ireland; and variable annuity separate account business in the United States. The net assets of these funds are carried at fair value, and a corresponding amount is reported as a liability.

(g) Foreign currency translation

Foreign currency assets and liabilities are translated into Canadian dollars using the rates of exchange in effect at the balance sheet dates. Revenues and expenditures are translated into Canadian dollars at average rates of exchange during the year.

The Company's CTA arises from the translation of its self-sustaining foreign operations. Unrealized foreign currency gains and losses arising on the translation of the accounts of the Company's foreign operations and on forward foreign exchange agreements that are used to hedge the exposure of the Company's investments in foreign operations are recorded as a direct adjustment to the CTA. The CTA is presented as a separate component of equity on the Consolidated Statements of Equity.

(h) Income taxes

The Company uses the liability method of tax allocation. Future income tax assets and liabilities reflect the net tax effects of temporary differences between the value of assets and liabilities reported for financial statement purposes and those reported for income tax purposes.

(i) Employee future benefit liabilities

The Company maintains defined benefit pension plans and provides other post-retirement benefits such as post-retirement life insurance, health and dental insurance benefits for its employees and agents. The assets supporting the trusteed pension plans of the Company are held in separate trusteed pension funds. The remaining benefits are included in other liabilities and are supported by general fund assets of the Company. The accrued benefit is determined using a market rate of interest.

Pension and other post-retirement benefit costs for the year are based on the estimated benefits earned by the employees and agents during the year. Pension plan surplus or deficit, changes in assumptions and plan amendments, as well as experience gains and losses, are amortized to income over the expected average remaining service life of plan members.

(j) Derivative financial instruments

The Company utilizes derivative financial instruments, including swaps, forward contracts, futures and options, when appropriate, to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. Gains and losses resulting from the use of these derivative financial instruments are included in income on a basis consistent with the underlying positions being hedged.

(k) Reinsurance

The Company's premium income, payments to policyholders and beneficiaries, actuarial liabilities and increase in actuarial liabilities are all shown net of amounts ceded to, or including amounts assumed from, other insurers.

(l) Goodwill

Goodwill represents the excess of cost over the estimated fair value of the net assets acquired as at the date of acquisition. Goodwill is generally amortized to income on a straight-line basis over 10 years.

Management annually assesses the recoverability of unamortized goodwill. Unamortized goodwill that is attributed to economies of scale to be realized on the integration of businesses acquired is charged to income to the extent it is no longer recoverable from the expected future unrealized benefit of such economies of scale. On this basis, unamortized goodwill attributed to economies of scale is charged to income immediately when the economies of scale are either recognized in the valuation of the liabilities or are no longer expected to occur. The recoverability of other goodwill is assessed based on discounted future cash flow projections (not including future economies of scale) from the businesses acquired. See note 2(r)(i) for a description of changes to this policy effective January 1, 2002.

(m) Gross premiums

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

(n) Fee and other income

Fee and other income primarily includes fees earned from the management of the Company's segregated funds assets, third party assets and fees earned from investment management services provided by subsidiary companies.

(o) Cash and cash equivalents

Cash equivalents consist of investments with original maturities at acquisition of three months or less.

(p) Short-term investments

Short-term investments consist of investments with original maturities at acquisition exceeding three months, but less than 12 months.

(q) Software costs

For those costs that meet specific criteria, the Company capitalizes and amortizes software acquisition and development costs over a period not exceeding five years.

(r) Future changes in accounting policy

(i) Goodwill and other intangible assets

The CICA approved new recommendations on accounting for Goodwill and Other Intangible Assets in September 2001. Under the requirements of the new recommendations, all goodwill and intangible assets with indefinite lives will cease to be amortized to net income. Goodwill and intangible assets with indefinite lives will be subject to a periodic impairment review to test whether the fair value remains greater than, or equal to, book value. Any excess of book value over fair value would be charged to net income in the period in which the impairment has been determined.

The Company will adopt the new recommendations as of January 1, 2002 at which time goodwill will no longer be amortized. The adoption of these recommendations will result in the elimination of approximately $25 million of goodwill expense.

(ii) Stock-based compensation

The CICA approved new recommendations on the treatment of stock-based compensation in November 2001. The new recommendations allow for the use of either the fair value based or intrinsic value based methods to account for certain stock-based compensation agreements.

The Company will adopt the new recommendations using the intrinsic value based methods as of January 1, 2002 with retroactive application without restatement of prior periods. The adoption of these recommendations is not expected to have a material impact on the Company's Consolidated Financial Statements.

3 Significant Actuarial Policies

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions and policy administrative expenses for all insurance and annuity policies in force with the Company. The Company's Appointed Actuary is responsible for determining the amount of the actuarial liabilities such that sufficient funds will be available in the future to meet the Company's obligations. The valuation methods used by the Appointed Actuary are determined using generally accepted actuarial practices, according to standards established by the CIA. The valuation methods used by the Company were changed in 2001 to adopt Life SOP as required by the CIA. See note 2(a)(i) for the impact of this change on the Consolidated Financial Statements. In addition, CICA Accounting Guideline 9 requires that the determination of the actuarial liabilities include the discounting effect of future income taxes relating directly to items included in the computation of these liabilities.

The valuation methodology under Life SOP is CALM. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations. The method consists of four basic steps:

1. Determination of the period over which these projections are performed.
2. Projection of liability cash flows.
3. Projection of asset cash flows.
4. Performance of economic scenario testing under a variety of plausible economic conditions.

The Company maintains specific asset funds to back each major line of business in each country. The projection of liability and asset cash flows recognizes these specific asset funds.

(a) Selecting the projection period

The projection period is chosen so as to include all insured events in the valuation process. The projection period is long enough to encompass all material policy-related obligations arising from commitments the insurer has made on, or before, the valuation date. For example, the projection period for a traditional non-participating individual life policy is the maturity date of the contract.

For certain segregated funds products without significant insurable events, Life SOP requires a method for determining general fund actuarial liabilities which involves a projection of future policy expense margins and a comparison of these amounts to expenses associated with the acquisition of these policies that have not yet been recovered. To the extent these future margins will allow for the future recovery of these unrecovered expenses, the unrecovered expenses are a reduction to actuarial liabilities otherwise computed.

For certain group life and health insurance products, Life SOP allows for the amortization and recovery of acquisition expenses from policy expense margins that are expected to be received in the future. To the extent these future margins will allow for the future recovery of these unrecovered expenses, the unrecovered expenses are a reduction to actuarial liabilities otherwise computed.

(b) Projecting liability cash flows

Projecting liability cash flows involves the use of best estimates for the following assumptions: mortality, morbidity, administrative expenses, policyholder dividends, and policy lapses and surrenders. Actual experience is monitored against these assumptions to ensure they remain reasonable.

The process of projecting liability cash flows involves the estimation of the occurrence of events (e.g., a policyholder's death or surrender) that may or may not happen until many years in the future. Due to the uncertainties involved in this process, best estimate assumptions are adjusted by margins for adverse deviations, which provide for possible unfavourable deviations from expected experience. These margins increase actuarial liabilities and reduce the net income that otherwise would be recognized at the inception of a policy.

The range for these margins is set out in guidelines issued by the CIA. Given the diversity and size of the Company's portfolio, the risk of deviations being significantly different than expected is relatively low, so that margins at the low end of the permissible range are often justifiable. However, the Company often follows a more prudent practice of establishing margins close to the middle of the range.

(c) Key assumptions for projecting liability cash flows

The following is a description of the methods used to calculate the best estimates for the significant non-economic assumptions used in the projection of liability cash flows.

(i) Mortality

Mortality relates to the incidence of death. For life insurance, the Company conducts annual mortality studies for each country and line of business. The Company's assumptions are derived by expressing its own average experience over the last five years as a percentage of the most recent industry experience tables.

For major payout annuity blocks of business, the Company conducts annual mortality studies and the rates used are based on the average experience over the last five years. In the case of smaller blocks of annuity business where the experience is too small to be reliable, inter-company pension experience tables are used. Suitable projection factors reflecting industry experience are used in all cases to allow for the improving mortality trends.

(ii) Morbidity

Morbidity generally refers to the incidence of sickness and accident claims, and to the rate of recovery of such claimants.

For people who are not currently disabled, the morbidity assumptions for individual policies are based on recent internal studies translated into various factors applied to standard industry morbidity tables. For group policies, the premium can be changed each year due to changing claims experience and, therefore, the liability is set equal to a portion of the premiums paid in advance.

For people who are disabled, the termination assumptions are based on recent internal studies and translated into factors applied to standard industry tables.

(iii) Administrative expenses

Actuarial liabilities include amounts to provide for the costs of administering policies in force such as the cost of collecting premiums, processing and adjudicating claims, periodic communications with policyholders, related indirect expenses and a share of overhead costs. Allowances for expenses are based on the Company's most recent internal cost analysis, with adjustments to the current valuation year. The internal cost analysis is reviewed and updated annually. These expenses are projected into the future with allowances for inflation.

(iv) Policyholder dividends

Policy liabilities include the present value of the estimated future payments of participating policyholder dividends, including terminal bonus dividends for policies issued in the United Kingdom and the Republic of Ireland. Dividends paid to participating policyholders are calculated in accordance with the dividend policy established by the Board of Directors ("the Board").

(v) Policy lapses and surrenders

Although a policy contract may call for the payment of premiums over the full term of the policy, policyholders may choose not to continue to pay premiums, thereby allowing their policy to lapse. Policyholders may also choose to surrender their policy in return for the policy's cash surrender value. Policy termination rate assumptions are based on the Company's recent experience by country and line of business. For certain products, the actuarial liability decreases as policy termination rates increase. On such products, very low policy termination rates are assumed in establishing the liabilities.

(d) Projecting asset cash flows

Asset cash flow projections reflect future scheduled events (e.g., coupon payments and maturities on bonds) as well as the use of best estimates for the following assumptions: investment expenses, asset defaults and pre-payments. These best estimate assumptions are adjusted by margins for adverse deviations, which provide for possible unfavourable deviations from expected experience. Assumptions are also made about reinvestment/disinvestment strategies for net cash flows.

(e) Economic scenario testing

A variety of economic scenarios are tested for most products. Scenarios include increases or decreases in interest rates, as well as changing patterns of these rates. The level of actuarial liabilities is determined by considering the amount of assets that must be set aside currently to provide for all future obligations under the more adverse economic scenarios tested.

4 Interest Rate, Foreign Currency, Credit and Liquidity Risk

(a) Interest rate risk

Interest rate risk is the risk that the economic value of the Company is adversely impacted by changes in interest rates. The interest rate risk associated with the Company's annuity and pension products is of particular importance because these products constitute approximately 58% (59% in 2000) of the Company's general fund actuarial liabilities. The timing and amount of the Company's obligations under annuity and pension products can be determined with reasonable certainty and the mismatch positions of the assets supporting these liabilities is monitored quarterly to measure compliance with the limits set out in the Company's Investment Policy.

The following table shows the estimated amount of the future asset and liability cash flows associated with the Company's annuity and pension products that were in force at December 31 and reflects the appropriate repricing or maturity date. The cash flow gap between the assets and the liabilities is also noted. These cash flows include the effect of any off-balance sheet derivative financial instruments the Company has entered into for asset/liability management purposes.

For the year ended December 31:

	Repricing or maturity date				
(in millions of Canadian dollars)	Less than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	Over 20 years
2001					
Assets	**$ 2,740**	**$ 8,423**	**$ 5,669**	**$ 7,679**	**$ 5,655**
Liabilities	**2,827**	**8,331**	**5,470**	**7,065**	**6,445**
Cash flow gap	**$ (87)**	**$ 92**	**$ 199**	**$ 614**	**$ (790)**
2000					
Assets	$ 2,765	$ 7,573	$ 5,313	$ 6,603	$ 5,435
Liabilities	2,639	7,772	4,969	6,499	5,648
Cash flow gap	$ 126	$ (199)	$ 344	$ 104	$ (213)

Two related methods are used by the Company to measure and to monitor the interest rate risk associated with the Company's annuity and pension products.

(i) Duration mismatch

The following table indicates, in years, the duration mismatch that is associated with the Company's annuity and pension products as at December 31:

(in years)	**2001**	2000
Asset duration	**7.01**	6.98
Liability duration	**6.99**	6.92
Duration mismatch	**0.02**	0.06

(ii) Net present value

The impact on the net present value (NPV) of the Company's annuity and pension products of a 1% parallel change in interest rates, as at December 31, is shown in the following table:

(in millions of Canadian dollars)	**2001**	2000
NPV	**$ 366**	$ 394
Impact on NPV if interest rate changed +1%	**(53)**	(56)
Impact on NPV if interest rate changed –1%	**44**	50

The margins for adverse deviations set aside in the actuarial liabilities, as described in note 3, take into account adverse interest rate movements that are significantly more adverse than the parallel 1% change shown above.

(b) Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates as compared to the Canadian dollar. A 1% strengthening of the Canadian dollar relative to the currencies in the foreign jurisdictions in which the Company operates would reduce shareholders' retained earnings by $24 million ($22 million in 2000) and net income by $3 million ($3 million in 2000) after taking into account the effect of any off-balance sheet derivative financial instruments that the Company has entered into for purposes of hedging against adverse changes in foreign exchange rates.

(c) Credit risk

Credit risk is the risk of financial loss due to the failure of a debtor to honour its obligations to the Company. Potential areas of significant concentration of credit risk include non-investment grade bonds and non-insured mortgages, which in 2001 amounted to $818 million and $7,121 million, respectively ($649 million and $6,709 million, respectively, in 2000) and represented 24% (24% in 2000) of the total invested asset portfolio. The carrying values of impaired non-investment grade bonds and non-insured mortgages in 2001 were $138 million and $15 million, respectively ($41 million and $17 million, respectively, in 2000) and represented less than 0.46% of the invested asset portfolio in 2001 (1% in 2000).

Credit risk associated with an individual counterparty is indicated by the Company's largest exposure to any one corporate entity's fixed term investments, including term preferred shares. The Company's largest exposure to any one corporate entity in 2001 was $192 million ($187 million in 2000).

The Company's exposure to credit risk relating to its off-balance sheet investments in derivative financial instruments is disclosed in note 17.

(d) Liquidity risk

Liquidity risk refers to the ability of the Company to meet its obligations to policyholders and creditors as they fall due.

The sources of liquidity are as follows:

(in millions of Canadian dollars)	**2001**	2000
Cash and short-term investments	**$ 1,142**	$ 1,424
Senior government securities	**5,283**	5,020
Other government securities and corporate bonds	**7,353**	7,549
Insured mortgages	**875**	874
Total	**$ 14,653**	$ 14,867

At December 31, 2001, the Company had $472 million ($311 million in 2000) available from the unused portion of revolving lines of credit.

Liquidity must be maintained, in particular, to provide for life insurance policies, which permit policyholders to surrender their policies for a guaranteed surrender value at any time. Some annuity policies may also be surrendered prior to the end of the stated maturity dates for a value determined by the terms of the policy. The aggregate amount of outstanding cash surrender values if all policies had been surrendered as at December 31, 2001 was $17,008 million ($15,960 million in 2000). Actual cash surrenders during the year amounted to $1,500 million ($1,671 million in 2000). Policyholder dividends left on deposit with the Company can be withdrawn on demand at any time, and as at December 31, 2001 totalled $301 million ($299 million for 2000). Policyholder dividends withdrawn during the year totalled $31 million ($36 million for 2000).

5 Reinsurance

(a) Reinsurance

The Company has a variety of reinsurance business arrangements in place whereby the Company accepts reinsurance from other insurers and reinsurers and, as well, uses reinsurance to manage underwriting and liability risk in the normal course of business. Reinsurance arrangements do not relieve the Company of its liability as the primary insurer. Therefore, the Company may be exposed to credit risk relating to its reinsurers and retrocessionaires.

The following summarizes the gross and net impacts of reinsurance on certain financial statement line items:

(in millions of Canadian dollars)	**2001**	2000
Premiums		
Direct written	**$ 5,976**	$ 5,007
Reinsurance assumed	**436**	387
Reinsurance ceded	**(1,054)**	(718)
Net premiums	**$ 5,358**	$ 4,676
Payments to policyholders and beneficiaries and increase in actuarial liabilities		
Gross expense	**$ 7,262**	$ 6,040
Reinsurance ceded	**(1,072)**	(409)
Net expense	**$ 6,190**	$ 5,631
Policy liabilities		
Gross policy liabilities	**$ 29,835**	$ 27,177
Reinsurance ceded	**(1,223)**	(491)
Net policy liabilities	**$ 28,612**	$ 26,686

(b) Impact of September 11

As part of its reinsurance business, the Company has special risk reinsurance (including workers' compensation and catastrophe coverage) contracts with other insurers and reinsurers on which it has incurred losses as a result of the terrorist attack of September 11. The Company has provided $606 million for these losses and expects to recover $415 million from reinsurers and a further $100 million from its catastrophe coverage for a net provision of $91 million.

The Company believes its estimates of gross and net losses incurred are reasonable but, they may be subject to adjustment as additional information is received. It may take a year or more to finalize these estimates. The Company has added a further $40 million to the provision to cover uncertainties, for a total provision of $131 million, pre-tax, this year. This has resulted in an after-tax charge to the Consolidated Statement of Net Income of $85 million in 2001.

Impact of September 11[1]

(in millions of Canadian dollars)	**2001**
Gross exposure	**$ 606**
Reinsurance recoveries	**(415)**
Exposure net of recoveries	**191**
Catastrophe coverage	**(100)**
Net exposure	**91**
Additional provision	**40**
Total provision	**$ 131**

[1] *All amounts included in the table in note 5(a).*

The reinsurance recoveries at December 31, 2001 relate to over 20 reinsurance relationships. Of the reinsurance recoverable amount at December 31, 2001, according to A.M. Best, 58% is with companies rated A+ or better, 34% is with companies rated A and 8% is with companies rated A–.

The Company is in discussion with certain of its quota share retrocessionaires confirming the scope of their obligations and liabilities within these complex reinsurance arrangements. The Company has entered into, and may in the future enter into, negotiations, arbitration proceedings or litigation with certain of its retrocessionaires in the process of collecting all amounts owed by such parties. Based on the information that the Company has to date, the Company believes that it will succeed in enforcing its rights in respect of each of its reinsurance arrangements.

The impact of claims arising from September 11 for the Company's life reinsurance and other business was $6 million of claims pre-tax and is offset largely by reductions in existing policy liabilities.

6 General Fund Investments and Net Investment Income

(a) Invested assets

(in millions of Canadian dollars)	Carrying value of unimpaired investments	Carrying value of impaired investments	Total carrying value of investments	Unrealized gains	Unrealized losses	Fair value of investments
2001						
Bonds						
Government – Canada	**$ 2,873**	**$ —**	**$ 2,873**	**$ 143**	**$ (21)**	**$ 2,995**
Government – foreign	**3,501**	**—**	**3,501**	**175**	**(27)**	**3,649**
Corporate and other	**12,534**	**138**	**12,672**	**732**	**(182)**	**13,222**
Mortgages						
Residential	**2,907**	**—**	**2,907**	**212**	**(7)**	**3,112**
Non-residential	**5,074**	**15**	**5,089**	**328**	**(15)**	**5,402**
Common and preferred stocks	**2,475**	**—**	**2,475**	**275**	**(179)**	**2,571**
Real estate (including foreclosed properties)	**938**	**3**	**941**	**124**	**(42)**	**1,023**
Other invested assets	**2,968**	**19**	**2,987**	**15**	**—**	**3,002**
Total	**$ 33,270**	**$ 175**	**$ 33,445**	**$ 2,004**	**$ (473)**	**$ 34,976**
2000						
Bonds						
Government – Canada	$ 3,021	$ —	$ 3,021	$ 185	$ (9)	$ 3,197
Government – foreign	3,626	—	3,626	267	(17)	3,876
Corporate and other	10,993	41	11,034	528	(214)	11,348
Mortgages						
Residential	2,595	—	2,595	169	(6)	2,758
Non-residential	4,971	17	4,988	271	(23)	5,236
Common and preferred stocks	1,988	14	2,002	504	(88)	2,418
Real estate (including foreclosed properties)	840	11	851	138	(47)	942
Other invested assets	3,003	3	3,006	5	—	3,011
Total	$ 31,037	$ 86	$ 31,123	$ 2,067	$ (404)	$ 32,786

Invested assets of the Company with a carrying value of $29,671 million ($27,466 million for 2000) and a fair value totalling $31,174 million ($29,019 million for 2000), as well as the cash flows derived therefrom, support the actuarial and other liabilities of the operating funds, participating policyholders' equity and the non-operating fund liabilities disclosed in note 7(c). Changes in the fair value of these assets generally will not cause a corresponding change in equity, as they would be offset by changes in actuarial liabilities.

Invested assets with a carrying value of $3,774 million ($3,657 million for 2000) and a fair value totalling $3,802 million ($3,767 million for 2000) support the shareholders' equity and subordinated debentures of the Company. Changes in the fair value of these assets would result in unrealized gains or losses, which would ultimately cause a corresponding change in shareholders' equity. In addition, the Company has recorded net deferred realized gains relating to the sale of assets supporting shareholders' equity of $332 million ($353 million for 2000). These net deferred realized gains and the unrealized gains or losses will be amortized to net income in the future in accordance with the accounting policies described in note 2(d).

The carrying value and fair value of bonds, by contractual maturity, are as follows:

(in millions of Canadian dollars)	**2001** Carrying value	**2001** Fair value	2000 Carrying value	2000 Fair value
Due in 1 year or less	**$ 663**	**$ 665**	$ 818	$ 790
Due after 1 year through 5 years	**4,146**	**4,279**	4,012	4,051
Due after 5 years through 10 years	**3,502**	**3,603**	3,823	3,901
Due after 10 years	**10,735**	**11,319**	9,028	9,679
Total	**$ 19,046**	**$ 19,866**	$ 17,681	$ 18,421

(b) Provisions for losses

The carrying values of impaired investments have been reduced by the following provisions for losses:

(in millions of Canadian dollars)	**2001**	2000
Bonds	**$ 48**	$ 20
Mortgages	**17**	25
Common and preferred stocks	**—**	3
Real estate (including foreclosed properties)	**1**	2
Other invested assets	**5**	2
Total	**$ 71**	$ 52
The change in the provisions for losses for the year is as follows:		
Provisions for losses, beginning of year	**$ 52**	$ 70
Net increase (decrease) in provisions for losses on impaired investments *(note 6(c))*	**17**	(17)
	69	53
Effect of changes in currency translation rates	**2**	(1)
Provisions for losses, end of year	**$ 71**	$ 52

The net increase in provisions for losses on impaired investments includes a recovery on restructured investments of $1 million ($6 million in write-offs for 2000).

In addition to the above specific provisions, actuarial liabilities as at December 31, 2001 include $514 million ($421 million for 2000) to provide for potential future asset defaults.

(c) Net investment income

(in millions of Canadian dollars)	**2001**	2000
Interest	**$ 2,063**	$ 1,978
Dividends	**59**	49
Net rents	**61**	62
Amortized net gains from:		
Bonds	**102**	63
Mortgages	**11**	10
Common and preferred stocks	**78**	153
Real estate	**20**	20
Sundry	**(70)**	22
Losses on impaired investments:		
Net (increase) decrease in provisions for losses on impaired investments *(note 6(b))*	**(17)**	17
Write-offs and net realized losses on sale of impaired investments	**(13)**	(22)
Investment expenses	**(53)**	(46)
Total	**$ 2,241**	$ 2,306

(d) Net deferred gains

Net deferred gains are calculated in accordance with note 2(d) and include deferred realized gains and losses on the sale of investments. The balances are as follows:

(in millions of Canadian dollars)	**2001**	2000
Bonds	**$ 951**	$ 944
Mortgages	**56**	53
Common and preferred stocks	**388**	457
Real estate	**96**	89
Total	**$ 1,491**	$ 1,543

7 Actuarial Liabilities

(a) Changes in actuarial liabilities

	2001			2000		
(in millions of Canadian dollars)	**Participating**	**Non-participating**	**Total**	Participating	Non-participating	Total
Balance, beginning of year	**$ 5,215**	**$ 20,266**	**$ 25,481**	$ 4,795	$ 18,926	$ 23,721
Change in accounting policy *(note 2(a)(i))*	**—**	**—**	**—**	—	210	210
Balance, beginning of year as restated	**5,215**	**20,266**	**25,481**	4,795	19,136	23,931
Set aside on new and existing business	**341**	**658**	**999**	418	300	718
Net change resulting from revised assumptions and refinements used in calculating certain liabilities[1]	**(6)**	**(21)**	**(27)**	3	(14)	(11)
	335	**637**	**972**	421	286	707
Acquisitions	**—**	**—**	**—**	—	714	714
Dispositions	**—**	**—**	**—**	—	(66)	(66)
Effect of changes in currency translation rates	**130**	**586**	**716**	(1)	196	195
Balance, end of year	**$ 5,680**	**$ 21,489**	**$ 27,169**	$ 5,215	$ 20,266	$ 25,481

[1] *Included in actuarial liability releases for 2001 were reductions of $14 million in U.S. individual insurance on account of mortality and expenses and $11 million in U.K. and Irish unit-linked insurance on account of mortality. Additionally, there was a further net release of $2 million in respect of a variety of other items.*

Included in actuarial liability releases for 2000 were Canadian reductions of $54 million in annuity interest rate margins and $46 million in respect of individual insurance mortality. Partially offsetting these releases were Canadian reserve strengthenings of $29 million in respect of individual insurance lapses, an increase in respect of group annuity mortality of $21 million and an increase of $12 million due to refinements in methods arising from system changes. Also included were increases in U.K. group and individual health insurance in respect of future morbidity experience for $30 million. Additionally, there was a further net release of $3 million in respect of a variety of other items.

(b) Distribution of actuarial liabilities

(in millions of Canadian dollars)	Participating Insurance and annuities	Non-participating Annuities	Non-participating Individual life and health insurance	Non-participating Group life and health insurance	Total
2001					
Canada	**$ 2,521**	**$ 6,570**	**$ 1,048**	**$ 1,137**	**$ 11,276**
United Kingdom	**1,196**	**3,630**	**289**	**347**	**5,462**
United States	**1,268**	**5,214**	**1,919**	**387**	**8,788**
Republic of Ireland	**343**	**318**	**413**	**15**	**1,089**
International and Reinsurance	**352**	**39**	**104**	**59**	**554**
Total	**$ 5,680**	**$ 15,771**	**$ 3,773**	**$ 1,945**	**$ 27,169**
2000					
Canada	$ 2,386	$ 6,652	$ 1,029	$ 1,096	$ 11,163
United Kingdom	1,182	3,183	283	284	4,932
United States	1,054	4,840	1,828	343	8,065
Republic of Ireland	279	250	282	17	828
International and Reinsurance	314	33	92	54	493
Total	$ 5,215	$ 14,958	$ 3,514	$ 1,794	$ 25,481

Actuarial liabilities have been reduced by reinsurance ceded as follows:

(in millions of Canadian dollars)	**2001**	2000
Canada	**$ 327**	$ 199
United Kingdom	**113**	108
United States	**47**	21
Republic of Ireland	**19**	19
International and Reinsurance	**97**	107
Total	**$ 603**	$ 454

(c) Carrying value of assets supporting each product line

(in millions of Canadian dollars)	Operating funds: Participating — Insurance and annuities	Operating funds: Non-participating — Annuities	Non-participating, Life and health insurance — Individual	Non-participating, Life and health insurance — Group	Equity, subordinated debentures and non-operating fund liabilities[1]	Total 2001	Total 2000
Canada							
Bonds	$ 1,777	$ 3,966	$ 894	$ 800	$ 184	**$ 7,621**	$ 7,246
Mortgages	482	2,779	243	374	8	**3,886**	3,986
Common and preferred stocks	239	26	6	2	270	**543**	387
Real estate (including foreclosed properties)	54	—	—	—	228	**282**	269
Other invested assets	434	175	27	246	312	**1,194**	1,384
All other assets	22	31	30	110	312	**505**	698
	$ 3,008	$ 6,977	$ 1,200	$ 1,532	$ 1,314	**$ 14,031**	$ 13,970
United Kingdom							
Bonds	$ 916	$ 2,811	$ 301	$ 345	$ 135	**$ 4,508**	$ 3,892
Mortgages	—	500	9	—	—	**509**	504
Common and preferred stocks	413	186	4	9	151	**763**	802
Real estate (including foreclosed properties)	135	355	—	—	83	**573**	495
Other invested assets	39	42	(4)	47	457	**581**	753
All other assets	14	227	40	27	179	**487**	409
	$ 1,517	$ 4,121	$ 350	$ 428	$ 1,005	**$ 7,421**	$ 6,855
United States							
Bonds	$ 735	$ 3,041	$ 978	$ 258	$ 756	**$ 5,768**	$ 5,578
Mortgages	413	2,260	498	178	3	**3,352**	2,946
Common and preferred stocks	63	—	—	—	394	**457**	306
Real estate (including foreclosed properties)	—	3	—	—	37	**40**	40
Other invested assets	166	(83)	400	60	329	**872**	616
All other assets	62	195	66	22	108	**453**	384
	$ 1,439	$ 5,416	$ 1,942	$ 518	$ 1,627	**$ 10,942**	$ 9,870
Republic of Ireland							
Bonds	$ 201	$ 235	$ 172	$ 17	$ 114	**$ 739**	$ 635
Common and preferred stocks	144	108	274	—	184	**710**	507
Real estate (including foreclosed properties)	30	7	—	—	4	**41**	37
Other invested assets	109	5	1	(5)	49	**159**	113
All other assets	(13)	(25)	(2)	7	(7)	**(40)**	8
	$ 471	$ 330	$ 445	$ 19	$ 344	**$ 1,609**	$ 1,300
International and Reinsurance							
Bonds	$ 172	$ 21	$ 93	$ 78	$ 46	**$ 410**	$ 330
Mortgages	122	11	68	48	—	**249**	147
Common and preferred stocks	7	—	(7)	—	2	**2**	—
Real estate (including foreclosed properties)	—	1	4	—	—	**5**	10
Other invested assets	86	17	28	22	28	**181**	140
All other assets	3	4	32	30	32	**101**	114
	$ 390	$ 54	$ 218	$ 178	$ 108	**$ 948**	$ 741
Total	$ 6,825	$ 16,898	$ 4,155	$ 2,675	$ 4,398	**$ 34,951**	$ 32,736

[1] *Non-operating fund liabilities include employee and agent retirement benefit liabilities and other miscellaneous liabilities of the Company.*

8 Subordinated Debentures

(in millions of Canadian dollars)	Maturity		2001		2000
Subordinated debentures bearing interest at a fixed rate of 8% until 2006 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance Rate plus 1%	2011	**$**	**250**	$	250
Series 1 subordinated debentures bearing interest at a fixed rate of 5.8% until 2008 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance Rate plus 1%	2013		**200**		200
Series 2 subordinated debentures bearing interest at a fixed rate of 6.4%	2028		**100**		100
Total		**$**	**550**	$	550

At December 31, 2001, the fair value of the subordinated debentures was $580 million ($565 million in 2000).

Subordinated debentures were issued by CLA. All of the above debentures constitute direct, unsecured and subordinated obligations of CLA and are redeemable at the option of CLA with the prior approval of OSFI. The subordinated debentures qualify as Tier 2B capital for Canadian regulatory purposes.

Interest expense relating to the subordinated debentures was $38 million ($38 million for 2000) and is included as part of interest expense in the Consolidated Statements of Net Income.

9 Income Taxes

(a) Income tax expense

(in millions of Canadian dollars)		2001		2000
Current income taxes	**$**	**55**	$	107
Future income taxes relating to temporary differences		**81**		57
Future income taxes resulting from changes in tax rates		**17**		31
Total	**$**	**153**	$	195

(b) Reconciliation of income tax expense

(in millions of Canadian dollars)		2001		2000
Net income before income taxes and after goodwill expense	**$**	**491**	$	547
Expected provision for income taxes at the combined Canadian federal and provincial statutory rate of 42.25% (44.25% for 2000)		**207**		242
Adjusted for:				
Federal and provincial statutory rate changes		**17**		31
Tax-exempt investment income		**(18)**		(21)
Foreign operations taxed at different rates and bases		**(51)**		(45)
Large corporations and other capital taxes		**3**		3
Recognition of tax losses of prior years		**(1)**		(9)
Other		**(4)**		(6)
Income tax expense	**$**	**153**	$	195

(c) Future income taxes

Other assets include future tax assets of $394 million ($469 million in 2000). The net future tax assets arise from temporary differences on the following items:

(in millions of Canadian dollars)	2001 Future tax assets	2001 Future tax liabilities	2000 Future tax assets	2000 Future tax liabilities
Investments	**$ 151**	**$ 1**	$ 139	$ —
Actuarial liabilities	**184**	**100**	171	94
Employee future benefits	**—**	**16**	55	4
Deferred acquisition costs	**128**	**—**	164	—
Other	**50**	**2**	39	1
Total	**$ 513**	**$ 119**	$ 568	$ 99

A portion of the undistributed net income of non-Canadian subsidiaries will be taxed in Canada upon repatriation. The Company will recognize the future tax liability on the undistributed net income at the time when management determines that they will be repatriated in the foreseeable future.

As at December 31, 2001, the Company has tax loss carryforwards, primarily in Canada, totalling $329 million ($319 million in 2000). The future tax benefit of these tax loss carryforwards has been recognized in the amount of $120 million ($118 million in 2000) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable. In addition, an accumulated tax loss carryforward of $178 million ($30 million in 2000) has not been recognized as a future tax asset.

(d) Goodwill

Goodwill expense is net of a tax recovery of $2 million for the year ended December 31, 2001 ($2 million in 2000).

10 Other Liabilities

Other liabilities are comprised of the following items:

(in millions of Canadian dollars)	**2001**	2000
Accounts payable	**$ 548**	$ 444
Employee future benefits *(note 15)*	**(41)**	149
Current income taxes	**69**	174
Premium taxes	**18**	14
Other	**281**	240
Total	**$ 875**	$ 1,021

11 Share Capital

(a) Authorized:

(i) Preferred shares

There is an unlimited number of non-voting authorized preferred shares without nominal or par value, issuable in series. The by-law authorizes the Board, prior to the issue of any series of preferred shares, to fix the number of shares in, and to designate the rights, privileges, restrictions and conditions of each series, subject to the provisions of the Company's by-laws and the ICA.

(ii) Common shares

There is an unlimited number of authorized voting common shares.

(b) Issued and outstanding:

(in millions of Canadian dollars)	2001 Number of shares	2001 Share value	2000 Number of shares	2000 Share value
Preferred shares				
Balance, beginning of year	—	$ —	—	$ —
Series B[1]	4.0	95	—	—
Series B shares issued to underwriters	2.0	50	—	—
Balance, end of year	**6.0**	**$ 145**	—	$ —
Common shares				
Balance, beginning and end of year	**160.4**	**$ 317**	160.4	$ 317

[1] *On December 28, 2001, the Company issued six million non-cumulative redeemable Series B preferred shares at $25.00 per share for net proceeds of $145 million after deducting total issue expenses and underwriting fees of $5 million.*

The Series B non-cumulative preferred shares are entitled to annual non-cumulative preferential cash dividends of $1.5625 per share, payable quarterly. The redemption price if the shares are redeemed prior to December 31, 2007 is $26.00 per Series B share. Beginning on December 31, 2007, the redemption price declines $0.25 annually until after 2010 at which time the redemption price is $25.00 per share.

12 Earnings per Common Share

(in millions of Canadian dollars, except per share amounts)	2001	2000
Basic earnings per common share		
Net income available to common shareholders before goodwill expense	**$ 367**	$ 380
Goodwill expense	**25**	24
Net income available to common shareholders	**$ 342**	$ 356
Weighted daily average number of common shares outstanding	**160.4**	160.4
Basic earnings per common share excluding goodwill expense	**$ 2.29**	$ 2.37
Basic earnings per common share	**$ 2.13**	$ 2.22
Diluted earnings per common share		
Net income available to common shareholders before goodwill expense	**$ 367**	$ 380
Goodwill expense	**25**	24
Net income available to common shareholders	**$ 342**	$ 356
Weighted daily average number of common shares outstanding	**160.4**	160.4
Dilutive effect of stock options granted and outstanding	**0.2**	—
Weighted daily average diluted number of common shares outstanding	**160.6**	160.4
Diluted earnings per common share excluding goodwill expense	**$ 2.29**	$ 2.37
Diluted earnings per common share	**$ 2.13**	$ 2.22

13 Minimum Capital Requirements and Shareholder Dividend Restrictions

The Company is regulated by OSFI as a Canadian insurance company. OSFI requires Canadian insurance companies to maintain minimum levels of capital and surplus with respect to their worldwide insurance operations in order to provide additional assurance with respect to future solvency. These minimum levels are calculated in accordance with the Minimum Continuing Capital and Surplus Requirements (MCCSR) issued by OSFI. The Company's policy is to maintain an MCCSR ratio well in excess of the minimum required level. At the end of 2001, the ratio was 191% (197% on a proforma basis at the end of 2000). This ratio represents an excess of available capital of $857 million ($862 million for 2000) over OSFI's minimum capital requirements.

The Company's ability to meet its cash requirements and pay dividends on the common and preferred shares will depend on the receipt of dividends and other payments from CLA. CLA's insurance subsidiaries and branches are required to maintain minimum solvency and capital standards in the jurisdictions in which they operate. These regulatory standards may effectively restrict the amount of dividends, distributions or other payments that may be made by such subsidiaries and branches to CLA and to the Company.

In 2001, the Company distributed $84 million ($77 million in 2000) of cash dividends to shareholders.

14 Stock-Based Compensation

(a) Stock option plan

Under the Company's stock option plan, stock options are periodically granted to selected employees and non-employee directors at an exercise price not less than the closing price of the common shares on the Toronto Stock Exchange on the last trade the day prior to the date the option was granted. The number of options granted, the exercise price, the expiry date and the vesting period are determined by the Board. Except for options granted to members of the Board which vest at the date of grant, the options vest 25% each year over a four year period and expire 10 years after the date of grant.

At the discretion of the Board, options may be awarded with stock appreciation rights (SARs) granted in tandem. The SARs have the same vesting, expiry and exercise terms and conditions as the options. The SARs give the option-holder the choice to either exercise the option or forfeit the option and receive a cash payment equal to the difference between the market value of the shares on the date of exercise and the exercise price.

A summary of the Company's stock option plan is as follows:

	2001		2000	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	**962,046**	**$ 36.95**	—	$ —
Granted[1]	**1,161,079**	**42.25**	971,789	36.95
Forfeited	**(76,715)**[2]	**39.46**	(9,743)	36.95
Outstanding, end of year	**2,046,410**	**$ 39.86**	962,046	$ 36.95
Exercisable, end of year	**308,330**	**$ 37.78**	48,000	$ 36.95
Available for grant	**5,953,590**		7,037,954	

1 *In 2001, at the Board's approval, 1,139,593 of these options were granted with SARs attached (941,539 in 2000).*

2 *2001 includes 4,209 of options forfeited due to the exercise of SARs during the year.*

(b) Directors share purchase plan

As of January 17, 2001, the Company introduced a directors share purchase plan (DSPP). Under this plan, each director may choose to receive all or a percentage of his/her annual fees in the form of Company shares. This election to participate must be made on an annual basis. The shares are purchased on a quarterly basis by a plan administrator in the open market based on the amounts allocated by each director. The plan allows the directors to withdraw funds from their account during an open trading window and terminates once the plan member ceases to be a director. Compensation expense for DSPPs is recorded under general expenses in the Consolidated Statements of Net Income. Compensation expense related to this plan was immaterial for the year ended December 31, 2001.

(c) Deferred stock unit plan

As of February 6, 2001, the Company introduced a deferred stock unit plan (DSU). The plan is offered to senior executive officers and non-employee directors of the Company. Under this plan, each member may choose to receive all or a percentage of his/her annual incentive bonus or director's fee in the form of deferred stock units. This election to participate must be made on an annual basis. The initial value of each unit is based on the closing price of the Company's common shares at the date of grant. The DSUs attract dividends in the form of additional DSUs at the same rate as dividends on the common shares. Units are redeemable only when a plan member ceases to be a Company employee or director. Compensation expense for the DSUs is recorded under general expenses in the Consolidated Statements of Net Income. Compensation expense related to this plan was immaterial for the year ended December 31, 2001.

(d) Employee stock purchase plan

The Company adopted an employee stock purchase plan (ESPP) in Canada effective January 1, 2001 and in the United Kingdom effective June 1, 2001. In Canada, qualifying employees can choose to have a portion of their annual base salary withheld to purchase the Company's common shares. The Company matches 50% of the employee contribution amount to a maximum of the lesser of $1,500 per year or 2.5% of eligible annual earnings. The U.K. plan is the same as the plan in Canada except that the Company matches 10% of the employee contribution amount to a maximum of £150. The Company's contributions vest after one year of continuous participation in the plan, and all subsequent contributions vest immediately. Matching contributions made by the Company on the purchase of shares are expensed over the vesting period. Compensation expense related to this plan was immaterial for the year ended December 31, 2001.

15 Employee Future Benefits

The Company provides pension and other post-retirement life, health and dental insurance benefits, as well as post-employment benefits, for its eligible employees and agents.

Information about the Company's defined benefit pension and other arrangements, in aggregate, is as follows:

	Pension benefits		Other benefits	
(in millions of Canadian dollars)	**2001**	2000	**2001**	2000
Accrued benefit obligation:				
Balance, beginning of year	**$ 826**	$ 767	**$ 125**	$ 118
Service cost	**43**	34	**4**	5
Employee contributions	**6**	4	**—**	—
Interest cost	**60**	54	**9**	8
Benefits paid	**(42)**	(42)	**(6)**	(6)
Actuarial gains (losses)	**16**	5	**1**	(1)
Other	**7**	8	**—**	—
Effect of changes in currency exchange rates	**9**	(4)	**1**	1
Balance, end of year	**$ 925**	$ 826	**$ 134**	$ 125
Funded plan assets:				
Fair value, beginning of year	**$ 1,257**	$ 1,037	**$ —**	$ —
Actual return on plan assets	**(244)**	253	**—**	—
Employer contributions	**162**	7	**—**	—
Employee contributions	**6**	4	**—**	—
Benefits paid	**(42)**	(42)	**—**	—
Other	**7**	5	**—**	—
Effect of changes in currency exchange rates	**10**	(7)	**—**	—
Fair value, end of year	**$ 1,156**	$ 1,257	**$ —**	$ —
Net funded status, end of year	**$ 231**	$ 431	**$ (134)**	$ (125)
Unamortized net actuarial losses (gains)	**209**	(166)	**1**	(1)
Unamortized transitional (asset) obligation	**(268)**	(290)	**2**	2
Prepaid (accrued) benefit asset (liability)	**$ 172**	$ (25)	**$ (131)**	$ (124)

Included in the above accrued benefit obligation at the end of 2001 is $62 million ($158 million for 2000) in respect of pension arrangements, which is supported by assets held within the Company's general fund. The other benefits obligations are also supported by assets held within the Company's general fund.

The Company's net expense for defined benefit pension and post-retirement benefit plans is as follows:

(in millions of Canadian dollars)	Pension benefits **2001**	Pension benefits 2000	Other benefits **2001**	Other benefits 2000
Service cost	**$ 43**	$ 34	**$ 4**	$ 5
Expected interest cost	**60**	54	**9**	8
Expected return on plan assets	**(102)**	(80)	**—**	—
Amortization of net actuarial gains	**(10)**	—	**—**	—
Amortization of transitional (asset) liability	**(21)**	(21)	**—**	1
Net benefit plan expense (recovery)	**$ (30)**	$ (13)	**$ 13**	$ 14

The Company's net expense for defined contribution pensions is $1 million ($2 million for 2000).

The significant actuarial assumptions adopted in measuring the Company's end-of-year accrued benefit obligations are as follows (weighted average assumptions):

	Pension benefits **2001**	Pension benefits 2000	Other benefits **2001**	Other benefits 2000
Discount rate	**6.65%**	6.94%	**7.02%**	7.07%
Expected long-term rate of return on plan assets	**7.69%**	7.96%	**—**	—
Rate of compensation increase	**4.98%**	5.29%	**5.45%**	5.45%

Assumed health care cost trends have a significant effect on the amounts reported for the health care plan. The impact of a 1% change in the assumed health care cost trend rates would be as follows:

(in millions of Canadian dollars)	1% increase	1% decrease
Effect on total of service and interest costs for 2001	$ 2	$ (2)
Effect on year-end post-retirement benefit obligation for 2001	$ 12	$ (13)

The assumed weighted average increase in health care costs for 2001 is 9.7%, gradually decreasing to 5.5% by 2006 and remaining at that level thereafter.

16 Segmented Information

(a) Basis of segmentation

The Company manages its business and distributes its general fund and segregated funds insurance and annuity products through operating divisions in Canada, the United Kingdom, the United States and the Republic of Ireland, as well as an International and Reinsurance Division and the Corporate Division. Each operating division includes branch operations and/or subsidiary companies, is organized to meet the needs of local markets and is responsible for its own product functions. The Corporate Division manages invested assets, provides certain administrative services and is responsible for capital management.

The operating divisions are charged overhead costs for head office corporate functions using cost allocations based on services provided. In addition, the operating divisions share in the net income from the assets backing equity. The total net income on the assets backing equity is allocated to the divisions based on the level of required capital deployed in each division. The level of capital deployed is based on the MCCSR for branch operations and on the actual equity held for subsidiary companies.

(b) Reportable information

The Company's primary sources of revenue are:

- premium income derived from life and health insurance products that provide protection against mortality and morbidity risks, and annuity products that provide asset accumulation or wealth management benefits;
- net investment income; and
- fee and other income derived primarily from investment management services.

Notes to the Consolidated Financial Statements

(c) Segmented Information

(in millions of Canadian dollars)	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Corporate	Total
2001							
General fund							
Revenues							
Premiums							
Participating insurance and annuities	$ 290	$ 91	$ 271	$ 76	$ 40	$ —	$ 768
Non-participating:							
Annuities	499	674	790	286	23	—	2,272
Individual life and health insurance	258	68	162	22	6	—	516
Group life and health insurance	846	246	448	7	86	—	1,633
Reinsurance	—	—	—	—	169	—	169
	1,893	1,079	1,671	391	324	—	5,358
Net investment income	970	422	704	65	66	14	2,241
Fee and other income	177	208	16	58	5	1	465
	3,040	1,709	2,391	514	395	15	8,064
Expenditures							
Payments to policyholders and beneficiaries	2,069	927	1,758	94	370	—	5,218
Increase in actuarial liabilities	114	343	234	250	31	—	972
Commissions	175	66	106	54	60	—	461
General expenses	323	206	155	74	35	1	794
Premium and other taxes	53	—	16	(9)	4	—	64
Interest expense	19	—	12	—	4	4	39
	2,753	1,542	2,281	463	504	5	7,548
Net income (loss) before income taxes and goodwill expense	287	167	110	51	(109)	10	516
Income taxes (recovery)	123	25	30	13	(42)	4	153
Net income (loss) before goodwill expense	164	142	80	38	(67)	6	363
Goodwill expense	2	20	2	—	1	—	25
Net income (loss)	162	122	78	38	(68)	6	338
Participating policyholders' net income (loss)	1	—	(9)	4	—	—	(4)
Shareholders' net income (loss)	$ 161	$ 122	$ 87	$ 34	$ (68)	$ 6	$ 342
Total assets:							
Participating	$ 3,008	$ 1,517	$ 1,439	$ 471	$ 390	$ —	$ 6,825
Non-participating	11,023	5,904	9,503	1,138	558	—	28,126
	$ 14,031	$ 7,421	$ 10,942	$ 1,609	$ 948	$ —	$ 34,951
Segregated funds							
Deposits	$ 1,395	$ 1,888	$ 102	$ 442	$ 1	$ —	$ 3,828
Total assets	$ 8,118	$ 11,053	$ 825	$ 2,090	$ 4	$ —	$ 22,090

(c) Segmented Information

(in millions of Canadian dollars)	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Total[1]
2000						
General fund						
Revenues						
Premium income						
Participating insurance and annuities	$ 315	$ 101	$ 265	$ 63	$ 42	$ 786
Non-participating:						
Annuities	312	585	580	254	11	1,742
Individual life and health insurance	232	63	163	19	3	480
Group life and health insurance	766	206	343	8	68	1,391
Reinsurance	—	—	—	—	153	153
General insurance	124	—	—	—	—	124
	1,749	955	1,351	344	277	4,676
Net investment income	995	475	698	77	61	2,306
Fee and other income	177	221	21	57	3	479
	2,921	1,651	2,070	478	341	7,461
Expenditures						
Payments to policyholders and beneficiaries	2,231	704	1,679	112	198	4,924
Increase (decrease) in actuarial liabilities	(135)	539	51	222	30	707
Commissions	155	73	86	42	53	409
General expenses	348	172	128	68	27	743
Premium and other taxes	53	—	13	(2)	4	68
Interest expense	23	—	12	—	4	39
	2,675	1,488	1,969	442	316	6,890
Net income before income taxes and goodwill expense	246	163	101	36	25	571
Income taxes	122	31	25	11	6	195
Net income before goodwill expense	124	132	76	25	19	376
Goodwill expense	1	20	2	—	1	24
Net income	123	112	74	25	18	352
Participating policyholders' net income (loss)	—	—	(8)	3	1	(4)
Shareholders' net income	$ 123	$ 112	$ 82	$ 22	$ 17	$ 356
Total assets						
Participating	$ 2,896	$ 1,499	$ 1,234	$ 388	$ 340	$ 6,357
Non-participating	11,074	5,356	8,636	912	401	26,379
	$ 13,970	$ 6,855	$ 9,870	$ 1,300	$ 741	$ 32,736
Segregated funds						
Deposits	$ 1,909	$ 1,258	$ 115	$ 407	$ 3	$ 3,692
Total assets	$ 8,326	$ 11,219	$ 854	$ 1,980	$ 4	$ 22,383

[1] *These numbers have been restated as a result of adopting, on October 1, 2001, the Life SOP. See note 2(a)(i) for further details.*

17 Derivative Financial Instruments

The Company is party to various derivative financial instruments, not all of which are reflected in the Consolidated Balance Sheets. Derivative financial instruments are financial contracts that derive their value from that of the underlying financial assets, interest rates, foreign currency rates or stock/bond/commodity indices.

Derivative financial instruments are either negotiated over-the-counter (OTC) as a direct arrangement between two counterparties or traded on a regulated exchange. Derivative financial instruments include:

- options, which are contracts giving the holder, for a fee, the right, but not the obligation, to buy or to sell, within a limited time, the underlying financial asset at a contracted price;
- futures and forward contracts, which impose obligations on the contracting parties to buy or to sell at a future date, a specified underlying financial asset at a specified price, and which may be settled in cash or through delivery; and
- swaps, which are contracts obligating two parties to exchange a series of cash flows at specified intervals in the future.

The following table summarizes the notional amount, the fair value and the credit risk exposure of the Company's derivative financial instruments:

	Interest rate contracts[1]		Foreign exchange contracts			
(in millions of Canadian dollars)	Futures	Swaps	Forwards[2]	Swaps	Other contracts[3]	Total contracts
2001						
Notional amount by term to maturity						
Exchange traded:						
Less than 1 year	**$ 633**	**$ —**	**$ —**	**$ —**	**$ 41**	**$ 674**
Over-the-counter:						
Less than 1 year	**—**	**206**	**840**	**39**	**116**	**1,201**
1 to 5 years	**—**	**220**	**—**	**119**	**—**	**339**
Over 5 years	**—**	**1,065**	**—**	**880**	**—**	**1,945**
Total	**$ 633**	**$ 1,491**	**$ 840**	**$ 1,038**	**$ 157**	**$ 4,159**
Fair value	**$ —**	**$ 31**	**$ (13)**	**$ (127)**	**$ 2**	**$ (107)**
Credit risk exposure						
Maximum credit risk	**$ —**	**$ 70**	**$ 1**	**$ 2**	**$ 4**	**$ 77**
Potential future credit exposure	**—**	**17**	**9**	**72**	**7**	**105**
Credit equivalent amount	**$ —**	**$ 87**	**$ 10**	**$ 74**	**$ 11**	**$ 182**
Risk weighted amount	**$ —**	**$ 25**	**$ 2**	**$ 29**	**$ 2**	**$ 58**
2000						
Notional amount by term to maturity						
Exchange traded:						
Less than 1 year	$ 594	$ —	$ —	$ —	$ 54	$ 648
Over-the-counter:						
Less than 1 year	—	70	650	13	102	835
1 to 5 years	—	351	—	97	—	448
Over 5 years	—	1,028	—	907	—	1,935
Total	$ 594	$ 1,449	$ 650	$ 1,017	$ 156	$ 3,866
Fair value	$ —	$ 33	$ (3)	$ (49)	$ (13)	$ (32)
Credit risk exposure						
Maximum credit risk	$ —	$ 63	$ 5	$ 9	$ —	$ 77
Potential future credit exposure	—	17	6	73	6	102
Credit equivalent amount	$ —	$ 80	$ 11	$ 82	$ 6	$ 179
Risk weighted amount	$ —	$ 24	$ 2	$ 32	$ 1	$ 59

1 *The Company has purchased options to enter into interest rate swaps in order to hedge the exposure of adverse movements in interest rates. The notional amount for 2001 was $814 million ($823 million for 2000).*

2 *The Company makes use of forward foreign exchange agreements to hedge the exposure of its investment in foreign operations against adverse movements in foreign exchange rates. The notional amount for 2001 was $671 million ($569 million in 2000).*

3 *The Company makes use of options and equity return swaps to hedge a portion of its stock portfolio against adverse movements in the stock markets. The notional amounts for the options and the equity return swaps for 2001 were nil and $116 million respectively (nil and $102 million, respectively, in 2000).*

Definition of terms used in this table:

(a) **Notional amount** reflects the volume of the Company's investment in derivative financial instruments. It represents the amount to which a rate or price is applied to calculate the exchange of cash flows. The amount of risk inherent in these contracts is significantly less than the notional amount.

(b) **Fair value** of a derivative financial instrument is equivalent to the replacement cost. Fair value is an estimate of the value at which derivative instruments could be exchanged between willing parties, other than in a forced or liquidation sale. When available, quoted market prices are used for derivative financial instruments. In all other cases, fair values are based on present value estimates of the future cash flows. The fair values stated above represent the net of contracts in a receivable position and those in a payable position.

(c) **Credit risk exposure** reflects the potential loss due to defaults by the counterparties with which the Company is dealing. Credit risk is comprised of the following components, which have been determined in accordance with OSFI guidelines:

(i) **Maximum credit risk** represents the cost of replacing, at current market rates, all contracts that have a positive fair value, should the counterparty default. Since no loss related to credit risk is incurred for derivative contracts with a negative fair value, only positive fair values are considered to be at risk.

(ii) **Potential future credit exposure** quantifies the potential for future losses, which may result from future movement in market rates.

(iii) **Credit equivalent amount** is the sum of maximum credit risk and the potential future credit exposure reflecting the loss that would be incurred by the Company should a counterparty default on a derivative contract either now or at some time in the future.

(iv) **Risk weighted amount** estimates actual credit risk for a derivative financial instrument by applying a weighting factor based on the credit worthiness of the counterparty against the credit equivalent amount.

(d) **Other contracts** include equity return swaps, collars and stock options.

18 Commitments and Contingencies

(a) Legal proceedings and other matters

The Company has, in the normal course of business, a number of outstanding lawsuits. The aggregate liability, which may result from these lawsuits, is not considered to be a material amount.

On April 5, 2001, the Company received court approval for the settlement related to premium offset lawsuits. The lawsuits were initiated by policyholders who own whole life insurance policies. These actions had been filed in Ontario, Quebec and British Columbia by plaintiffs seeking to have the actions certified as class actions. The settlement amount did not have a material impact on these Consolidated Financial Statements.

In the United Kingdom, life insurance companies are required by the U.K. regulators to compensate policyholders who previously acquired personal pension products offered by such companies in situations in which they could otherwise have remained in or joined employer-sponsored pension plans and who suffered a financial loss as a result. The Company carried a provision of $111 million at December 31, 2001 ($204 million for December 31, 2000). During 2001, the provision was reduced by $93 million, primarily for payments to policyholders during the year and other adjustments. The respective provision and payments are net of estimated and actual recoveries from vendors of the businesses acquired by the Company in the United Kingdom. This provision is based on management's current estimate, and the amount of the actual compensation to policyholders is not expected to exceed this amount.

(b) Securities lending

The Company lends its own securities to borrowers on a fully collateralized basis. Securities lent at December 31, 2001 amounted to $1,264 million ($541 million for 2000).

(c) Crown acquisition arrangements

As part of the 1999 acquisition of the majority of Crown Life's insurance operations, the Company has the option, or may be required, to acquire the common shares of Crown Life and, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004, in which case Canada Life would receive assets with a value equal to the liabilities assumed. The purchase price for the shares would be the fair value of the assets backing Crown Life's common shareholders' equity.

(d) Operating lease commitments

The Company leases offices and certain equipment, which are operating leases with rents charged to operations in the year to which they relate. Total future rental payments are $368 million, with annual payments of $58 million for 2002, $52 million for 2003, $39 million for 2004, $36 million for 2005, $30 million for 2006 and $153 million thereafter.

Rent expense incurred for the year ended December 31, 2001 was $45 million ($44 million for 2000).

19 Material Differences Between Canadian and United States Generally Accepted Accounting Principles

The Consolidated Financial Statements of the Company are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from U.S. GAAP. The following is a summary of the material differences.

(a) The following table provides a reconciliation of Canadian GAAP net income and equity to U.S. GAAP net income, comprehensive income and equity.

	Net Income		Equity	
(in millions of Canadian dollars)	**2001**	2000	**2001**	2000
		restated (note 2(a))		*restated (note 2(a))*
Net income and equity determined in accordance with Canadian GAAP	**$ 338**	$ 352	**$ 3,423**	$ 2,936
Adjustments in respect of:				
Bonds	**(33)**	—	**938**	951
Mortgages	**—**	3	**56**	53
Common and preferred stocks	**(147)**	164	**7**	232
Real estate	**(4)**	270	**(66)**	(75)
Deferred acquisition costs	**63**	229	**1,616**	1,510
Goodwill	**(5)**	(62)	**390**	386
Actuarial liabilities	**(139)**	(318)	**(3,456)**	(3,228)
Future income taxes	**50**	(160)	**(290)**	(311)
Other reconciling items	**(54)**	26	**716**	671
Cumulative effect of adopting FAS 133	**(25)**	—	**(25)**	—
Net income determined in accordance with U.S. GAAP	**44**	504		
Foreign currency translation[1]	**76**	(7)		
Effect of unrealized gains and losses on available for sale bonds and stocks:				
Bonds	**118**	495	**851**	733
Derivatives	**5**	—	**5**	—
Common and preferred stocks	**(175)**	(320)	**478**	653
Deferred acquisition costs	**(9)**	(126)	**(201)**	(192)
Actuarial liabilities	**342**	(293)	**(188)**	(530)
Policyholder dividend obligation	**(126)**	—	**(126)**	—
Future income taxes	**(105)**	98	**(139)**	(34)
Value of business acquired	**(10)**	—	**(10)**	—
Comprehensive income and equity determined in accordance with U.S. GAAP	**$ 160**	$ 351	**$ 3,979**	$ 3,755

[1] *Fiscal 2001 includes $33 million of after-tax losses arising from hedges of the Company's investment positions in foreign operations.*

(b) The following table provides a general review of the material valuation and income recognition differences between Canadian GAAP and U.S. GAAP.

	Canadian GAAP	U.S. GAAP
Bonds	Bonds are carried at amortized cost, less an allowance for specific losses, when a decline in the value of the bond is considered to be other than temporary. Realized gains and losses on disposal are deferred and brought into income over the remaining term to maturity.	Bonds may be classified as "available for sale", "held to maturity" or "trading" securities. All bonds are classified as "available for sale" by the Company. Bonds accounted for as "available for sale" are carried at fair value. A decline in the value of a specific bond that is considered other than temporary results in a write-down of the bond value through a charge to income in the period of recognition. Realized gains and losses on disposal are immediately recognized in income. Unrealized gains and losses on bonds classified as "available for sale" are excluded from income and are reported net of tax as a separate component of equity.

	Canadian GAAP	U.S. GAAP
Mortgages	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses on disposal are deferred and amortized into income over the remaining term of the mortgage sold.	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses on disposal are recognized in income immediately.
Common and preferred stocks	Stocks are carried at a value that is adjusted toward fair value each year at a rate of 15% of the difference between the carrying value and year-end fair value. This adjustment is reflected in net income. Net realized gains and losses on disposal are deferred and amortized to net income on a declining balance basis at 15% per annum. If there is an other than temporary decline in the value of the stock portfolio, the carrying value is written down to fair value immediately through a charge to income.	Stocks may be classified as "available for sale" or "trading" securities. All stocks are classified as "available for sale" by the Company. Stocks accounted for as "available for sale" are carried at fair value. Realized gains and losses on disposal are immediately recognized in income. Unrealized gains or losses on stocks classified as "available for sale" are excluded from income and are reported net of tax as a separate component of equity. Other than temporary declines in the value of stocks result in a write-down of the stock value through a charge to income in the period of recognition.
Real estate	Real estate, including Company occupied premises, is carried at a value that is adjusted toward fair value each year at a rate of 10% of the difference between the carrying value and year-end appraised value. This adjustment is reflected in net income. Appraised value is determined annually based on a combination of internal appraisals established by the Company and independent appraisals. Net realized gains and losses on disposal are deferred and amortized to net income on a declining balance basis at 10% per year. If there is an other than temporary decline in the value of the real estate portfolio, the carrying value is written down to fair value immediately through a charge to income.	Real estate is carried at cost less accumulated depreciation. Realized gains and losses on disposal are recognized in income as they occur. Unrealized gains and losses are not recognized. Specific properties are written down to fair value if an impairment in the value of the property is considered to be other than temporary.
Deferred acquisition costs	Life SOP allows the amortization of acquisition expenses, determined in accordance with Canadian GAAP standards, over a period extending beyond the term of the liability of certain products, such as segregated funds products without material insurance components, and group life and health products with short guaranteed periods, to the extent that these acquisition expenses are recoverable.	The costs of acquiring new business that vary with and are related primarily to the production of new business are deferred and recorded as an asset to the extent such costs are deemed recoverable from future profits. Deferred Acquisition Costs (DAC) consist principally of commissions, and policy issue and underwriting expenses. For non-participating traditional life and annuity policies with life contingencies, DAC is amortized in proportion to expected future premiums. Assumptions on expected future premiums are made at the date of policy issue and are consistently applied over the life of the contracts.

	Canadian GAAP	U.S. GAAP
Deferred acquisition costs continued	The amount of deferred acquisition costs is included as a negative reserve in the actuarial liabilities.	For participating traditional life, universal life and investment-type contracts, DAC is amortized and charged to income in proportion to the estimated gross profit margins expected to be realized over the life of the contract. The assumptions used to estimate future gross profits change as experience emerges. In addition, DAC relating to these contracts is adjusted to reflect the changes that would have been necessary if the unrealized gains and losses on the bonds and stocks classified as "available for sale" had actually been realized. This adjustment is not included in income but is recognized directly in equity.
Actuarial liabilities	Effective October 1, 2001, the Company adopted the Standards of Practice for the Valuation of Policy Liabilities of Life Insurers ("Life SOP") issued by the Canadian Institute of Actuaries for the calculation of actuarial liabilities. Life SOP allows the amortization of acquisition expenses, determined in accordance with Canadian GAAP standards, over a period extending beyond the term of the liability of certain products, such as segregated funds products without material insurance components, and group life and health products with short guaranteed periods, to the extent that these acquisition expenses are recoverable. The actuarial liabilities represent the amount required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions, and policy maintenance expenses for all insurance and annuity policies in force with the Company. Actuarial liabilities are comprised of a best estimate reserve and provisions for adverse deviation. Assumptions used in the best estimate reserve cover investment yields, including asset defaults, mortality, morbidity, administrative expenses, policyholder dividends, and policy lapses and surrenders. Because of uncertainties involved in this process, best estimate assumptions are adjusted by margins for adverse deviations, which provide for possible unfavourable deviations from expected experience. These margins increase actuarial liabilities and reduce the net income that otherwise would be recognized at the inception of a policy. Assumptions are updated regularly, and the effects of any changes in assumptions are recognized in income immediately. Unless adverse deviation in fact occurs, the provisions for adverse deviation are recognized in income over the term of the contract as the risk of deviation from estimates declines.	There are three main standards for valuing actuarial liabilities, depending on the nature of the insurance contract. For traditional non-participating contracts, disability insurance and reinsurance contracts, actuarial liabilities are calculated using a net level premium method. The liabilities represent the present value of future benefits to be paid and related expenses less the present value of future net premiums. The assumptions used are not changed for future valuations unless it is determined that future income is no longer adequate to recover the existing DAC. In this case, this DAC is reduced or written off, and, if necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening of actuarial liabilities no longer apply. For universal life and investment-type contracts, the actuarial liabilities are equal to the policyholder account values. There is no provision for adverse deviation. If it is determined that the future income for universal life-type contracts is no longer adequate to recover the existing DAC, these costs would be written off, and actuarial liabilities would increase as necessary. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening no longer apply. For participating contracts, the actuarial liability is computed using a net level premium method. There is no provision for adverse deviation. The assumptions used are not changed for future valuations unless it is determined that future income is no longer adequate to recover the existing DAC. In this case, this DAC is reduced or written off, and, if necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening no longer apply. In addition, U.S. GAAP requires that certain actuarial liabilities be adjusted to reflect the changes that would have been necessary if the unrealized gains on stocks and bonds classified as "available for sale" had been realized. This adjustment is not included in income but is reported as a separate component of equity.

	Canadian GAAP	U.S. GAAP
Deferred revenue	All premium income is recorded as revenue when due. The anticipated costs of future services are included within actuarial liability calculations.	For universal life insurance and investment-type contracts, fees charged to policyholders relating to future services to be provided are recorded as deferred revenue and are amortized to income in the same manner as DAC.
Business combinations and goodwill	The actuarial liabilities assumed on acquisition of a business are valued based on accepted actuarial practice following the CALM, including the use of best estimate assumptions as at the date of acquisition. Goodwill represents the excess of cost over the estimated fair value of the net assets acquired as at the date of acquisition. The Company will adopt the new CICA recommendations for Business Combinations and Goodwill and Other Intangible Assets as of January 1, 2002 at which time goodwill will no longer be amortized.	The actuarial liabilities assumed on acquisition of a business are valued in accordance with the policies described in the Actuarial Liabilities discussion using current assumptions as at the date of acquisition. The present value of future profits on the in-force business acquired is recognized as an intangible asset and is amortized over future periods, on a basis consistent with the amortization of DAC as described above. Goodwill represents the excess of cost over the sum of the estimated fair value of net assets, including the present value of future profits on the in-force business acquired. The Company will adopt the new U.S. Financial Accounting Standards Board (FASB) recommendations for Business Combinations and Goodwill and Other Intangible Assets as of January 1, 2002 at which time goodwill will no longer be amortized.
Policyholders' dividend obligation	Net Income attributable to closed blocks of business arising from demutualization is recognized in the participating policyholders account as earned.	In determining net income attributed to closed blocks of business arising from demutualization, when there is a limit on the amount of earnings that can be distributed to shareholders, the excess of cumulative actual closed block earnings over cumulative expected earnings on a U.S. GAAP basis is set up as a policyholder dividend obligation (PDO) to the participating policyholders. The amount of the PDO as at December 31, 2001 is $134 million ($56 million for 2000) and is included in the actuarial liabilities.
Accounting for derivatives	The Company utilizes derivative financial instruments, including swaps, forward contracts, futures and options, when appropriate, to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. Gains and losses resulting from the use of these derivative financial instruments are included in income on a basis consistent with the underlying positions being hedged.	FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by FASB statements 137 and 138, was adopted effective January 1, 2001. The Statement requires the Company to recognize all derivatives as assets or liabilities on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. Derivatives that qualify as hedges must be designated as hedging instruments, based on the exposure being hedged, either as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation.

(c) The following table provides a general review of the material presentation differences between Canadian GAAP and U.S. GAAP.

	Canadian GAAP	U.S. GAAP
Premium income	Premium income is reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Net Income.	Premiums collected on universal life insurance and investment contracts (such as annuities) are not reported as revenue in the Consolidated Statements of Net Income but are recorded as deposits to policyholders' account balances. Fees assessed against the policyholders relating to the contracts are recognized as revenue.

	Canadian GAAP	U.S. GAAP
Reinsurance	Reinsurance recoverables from ceded contracts are recorded as an offset against policy liabilities.	Reinsurance recoverables are presented on a gross basis as a separate balance sheet asset, rather than netted against the related liabilities.
Segregated funds assets and liabilities	Segregated funds are managed separately from the general fund of the Company. Therefore, they are reported separately from the general fund assets and liabilities on the Consolidated Balance Sheets.	Segregated funds assets and liabilities are also separately presented in summary lines on the balance sheet, titled "separate accounts".
Statement of cash flows	The cash flows from investment contracts, including deferred annuities and group pensions, are disclosed as an operating activity.	The cash flows from investment contracts are disclosed as a financing activity.

(d) Condensed consolidated balance sheets

The following balance sheet items of the Company, as at December 31, 2001 and 2000, reflect the impact of valuation, income recognition and presentation differences between Canadian GAAP and U.S. GAAP.

	2001		2000	
(in millions of Canadian dollars)	**Canadian GAAP**	**U.S. GAAP**	Canadian GAAP	U.S. GAAP
			Restated (note 2(a))	
Assets				
Bonds	**$ 19,046**	**$ 19,866**	$ 17,681	$ 18,421
Mortgages	**7,996**	**7,993**	7,583	7,583
Common and preferred stocks	**2,475**	**2,571**	2,002	2,418
Real estate	**941**	**779**	851	699
Other investments	**2,987**	**3,162**	3,006	3,011
Deferred acquisition costs	**—**	**1,415**	—	1,318
Future income taxes	**394**	**174**	469	269
Reinsurance deposits and amounts recoverable	**155**	**983**	105	411
Other assets	**957**	**1,333**	1,039	1,443
Total assets	**$ 34,951**	**$ 38,276**	$ 32,736	$ 35,573
Segregated funds[1]	**$ 22,090**	**$ 22,090**	$ 22,383	$ 22,383
Liabilities and Equity				
Actuarial liabilities	**$ 27,169**	**$ 30,959**	$ 25,481	$ 29,238
Other policy liabilities	**1,443**	**1,808**	1,205	1,106
Net deferred gains	**1,491**	**—**	1,543	—
Future income taxes	**—**	**186**	—	146
Other liabilities	**875**	**794**	1,021	778
Subordinated debentures	**550**	**550**	550	550
Equity	**3,423**	**3,979**	2,936	3,755
Total liabilities and equity	**$ 34,951**	**$ 38,276**	$ 32,736	$ 35,573
Segregated funds[1]	**$ 22,090**	**$ 22,090**	$ 22,383	$ 22,383

[1] *U.S. GAAP terminology is Separate accounts.*

(e) Condensed consolidated statements of net income

The following statements of net income items of the Company for the years ended December 31, 2001 and 2000 reflect the impact of the valuation, income recognition and presentation differences between Canadian GAAP and U.S. GAAP.

	2001		2000	
(in millions of Canadian dollars)	**Canadian GAAP**	**U.S. GAAP**	Canadian GAAP	U.S. GAAP
			Restated (note 2(a))	
Revenues				
Premiums	**$ 5,358**	**$ 3,851**	$ 4,676	$ 3,569
Net investment income	**2,241**	**1,918**	2,306	2,046
Realized investment gains	**—**	**60**	—	749
Fee and other income	**465**	**603**	479	707
	8,064	**6,432**	7,461	7,071
Expenditures				
Payments to policyholders and beneficiaries	**5,218**	**4,128**	4,924	3,892
Increase in actuarial liabilities	**972**	**810**	707	1,180
Expenses, including commissions, interest and premium taxes	**1,383**	**1,347**	1,283	1,142
	7,573	**6,285**	6,914	6,214
Net income before income taxes	**491**	**147**	547	857
Income taxes	**153**	**103**	195	353
Net income	**$ 338**	**$ 44**	$ 352	$ 504

(f) Additional information required to be reported under U.S. GAAP

(i) Deferred acquisition costs

Changes in deferred acquisition costs were as follows:

(in millions of Canadian dollars)	**2001**	2000
Balance, beginning of year	**$ 1,318**	$ 1,220
Capitalization	**286**	277
Accretion of interest	**80**	99
Amortization	**(301)**	(147)
Effect of net unrealized gains and losses on bonds and stocks	**(9)**	(126)
Disposition	**—**	(6)
Foreign currency translation adjustment	**41**	1
Balance, end of year	**$ 1,415**	$ 1,318

(ii) Investments

The net unrealized investment gains (losses), which are included in the Consolidated Balance Sheets as a component of equity, were as follows:

(in millions of Canadian dollars)	**2001**	2000
Gross unrealized gains	**$ 1,622**	$ 1,721
Gross unrealized losses	**(288)**	(328)
Effect on deferred acquisition costs	**(201)**	(192)
Effect on actuarial liabilities	**(314)**	(530)
Effect on future income taxes	**(139)**	(34)
Effect on value of business acquired	**(10)**	—
Total	**$ 670**	$ 637

(iii) Earnings per common share

(in millions of Canadian dollars, except per share amounts)	**2001**	2000
Shareholders' net income[1]	**$ 44**	$ 504
Weighted daily average number of common shares outstanding	**160.4**	160.4
Basic and diluted earnings per common share	**$ 0.27**	$ 3.14
Shareholders' net income before cumulative effect of adopting FAS133[1]	**$ 69**	$ —
Weighted daily average number of common shares outstanding	**160.4**	—
Basic and diluted earnings per common share excluding cumulative effect of adopting FAS133	**$ 0.43**	$ —

[1] *Pro forma earnings per common share have been calculated assuming net income attributable to shareholders was $44 million ($504 million in 2000).*

Supplementary Financial and Other Information

Table 1 — Financial Highlights[1]

As at or for the years ended December 31 (in millions of Canadian dollars except per share amounts)	2001	2000	1999	1998[2]	1997	1996
		Public Company		Mutual Company		
PERFORMANCE MEASURES						
Shareholders' net income[3]	**$ 342**	$ 356	$ 321	$ 88	$ 266	$ 219
Earnings per common share[3]	**$ 2.13**	$ 2.22	$ 2.00	N/A	N/A	N/A
Book value per common share[3]	**$ 20.19**	$ 18.03	$ 17.64	N/A	N/A	N/A
Return on common shareholders' equity[3]	**11.1%**	12.9%	11.6%	3.3%	10.1%	9.3%
MCCSR ratio[4]	**191%**	197%	190%	212%	213%	232%
PREMIUMS AND NEW DEPOSITS						
General fund premiums	**$ 5,358**	$ 4,676	$ 4,821	$ 3,980	$ 3,315	$ 3,122
Segregated funds deposits	**3,828**	3,692	2,737	2,118	1,944	1,354
	$ 9,186	$ 8,368	$ 7,558	$ 6,098	$ 5,259	$ 4,476
ASSETS UNDER ADMINISTRATION						
General fund	**$ 34,951**	$ 32,736	$ 30,728	$ 26,284	$ 23,503	$ 22,341
Segregated funds	**22,090**	22,383	21,875	18,672	16,136	9,388
	57,041	55,119	52,603	44,956	39,639	31,729
Other assets[5]	**8,384**	8,138	2,652	2,437	3,353	3,206
	$ 65,425	$ 63,257	$ 55,255	$ 47,393	$ 42,992	$ 34,935
LIFE INSURANCE IN FORCE						
Individual	**$ 162,910**	$ 140,014	$ 125,193	$ 83,339	$ 75,210	$ 64,479
Group	**348,454**	273,678	245,115	217,788	184,797	166,128
	$ 511,364	$ 413,692	$ 370,308	$ 301,127	$ 260,007	$ 230,607

Table 2 — Consolidated Statements of Net Income[1]

For the years ended December 31 (in millions of Canadian dollars)	2001	2000	1999	1998[2]	1997	1996
		Public Company		Mutual Company		
REVENUES						
Premiums						
Participating Insurance and annuities	**$ 768**	$ 786	$ 831	$ 778	$ 639	$ 563
Non-participating:						
Annuities	**2,272**	1,742	1,769	1,731	1,394	1,446
Individual life and health	**516**	480	625	424	340	230
Group life and health	**1,633**	1,391	1,277	926	826	769
Reinsurance	**169**	153	202	—	—	—
General Insurance	**—**	124	117	121	116	114
Total Premiums	**5,358**	4,676	4,821	3,980	3,315	3,122
Net investment income	**2,241**	2,306	2,321	1,964	1,842	1,734
Fee and other income	**465**	479	393	331	231	191
	$ 8,064	$ 7,461	$ 7,535	$ 6,275	$ 5,388	$ 5,047
EXPENDITURES						
Payments to policyholders and beneficiaries	**5,218**	4,924	4,750	4,002	4,175	3,541
Increase in actuarial liabilities	**972**	707	1,133	1,061	39	478
Commissions	**461**	409	386	275	210	183
General expenses	**794**	743	681	659	482	448
Premium and other taxes	**64**	68	57	54	51	44
Interest expense	**39**	39	42	24	22	14
	$ 7,548	$ 6,890	$ 7,049	$ 6,075	$ 4,979	$ 4,708
Net income before income taxes and goodwill expense	**516**	571	486	200	409	339
Income taxes	**153**	195	128	50	123	109
Net income before goodwill expense	**363**	376	358	150	286	230
Goodwill expense	**25**	24	38	62	20	11
Net income[3]	**$ 338**	$ 352	$ 320	$ 88	$ 266	$ 219
Participating policyholders' net loss	**(4)**	(4)	(1)	—	—	—
Shareholders' net income	**$ 342**	$ 356	$ 321	N/A	N/A	N/A

1 *The restatements made as a result of adopting the new Standards of Practice for the Valuation of Policy Liabilities of Life Insurers issued by the Canadian Institute of Actuaries have been retroactively applied as of the third quarter of 2001 to the first quarter of 2000. For further information see notes 2(a) and 3 to the Consolidated Financial Statements.*

2 *Net income for 1998 was $88 million which includes provisions of $182 million after tax for two industry-wide issues in the United Kingdom. Excluding these provisions, net income would have been $270 million for the year ended December 31, 1998.*

3 *The Company demutualized on November 4, 1999 and for 1999, net income was originally presented as $249 million prior to demutualization and $72 million post demutualization. For comparative purposes, the 1999 shareholders' net income has been presented on a pro forma basis assuming the total net income in 1999 was attributable to shareholders. The 1998 and prior years' figures for earnings and book value per common share have not been presented on this basis.*

4 *Minimum Continuing Capital and Surplus Requirements (MCCSR) is calculated in accordance with capital standards set by the Company's primary regulator, the Office of the Superintendent of Financial Institutions, Canada. The MCCSR ratio has been restated for 2000 on a pro forma basis for the impact of the new Life Standards of Practice adopted in 2001.*

5 *Other deposits are included in other assets administered by the Company on behalf of third parties and are not included in general or segregated funds of the Company.*

Table 3 — Balance Sheet[1]

As at December 31 (in millions of Canadian dollars)	Public Company 2001	2000	1999	Mutual Company 1998	1997	1996
ASSETS						
General Fund						
Invested assets						
Bonds	**$ 19,046**	$ 17,681	$ 16,400	$ 13,650	$ 12,464	$ 11,325
Mortgages	**7,996**	7,583	7,117	6,351	5,744	5,287
Common and preferred stocks	**2,475**	2,002	1,868	1,833	1,577	1,295
Real estate	**941**	851	974	993	961	1,272
Policy loans	**1,070**	988	942	489	459	437
Short-term investments	**149**	373	119	222	164	589
Cash and cash equivalents	**993**	1,051	914	1,049	854	1,147
Other	**775**	594	673	565	363	323
Total invested assets	**33,445**	31,123	29,007	25,152	22,586	21,675
Other assets	**1,506**	1,613	1,721	1,132	917	666
Total general fund	**$ 34,951**	$ 32,736	$ 30,728	$ 26,284	$ 23,503	$ 22,341
Total segregated funds	**$ 22,090**	$ 22,383	$ 21,875	$ 18,672	$ 16,136	$ 9,388
LIABILITIES AND EQUITY						
General Fund						
Actuarial liabilities and other policy liabilities	**$ 28,612**	$ 26,686	$ 25,053	$ 20,550	$ 18,831	$ 18,321
Net deferred gains	**1,491**	1,543	1,326	1,380	937	668
Other liabilities	**875**	1,021	922	1,110	854	737
	30,978	$ 29,250	$ 27,301	$ 23,040	$ 20,622	$ 19,726
Subordinated debentures	**550**	550	550	550	250	250
Equity						
Participating policyholders' equity	**40**	44	47	2,694[2]	2,631	2,365
Shareholders' equity						
Preferred shares	**145**	—	—	N/A	N/A	N/A
Common shares	**317**	317	317	N/A	N/A	N/A
Retained earning	**2,921**	2,575	2,513	N/A	N/A	N/A
	3,423	2,936	2,877	2,694	2,631	2,365
Total general fund	**$ 34,951**	$ 32,736	$ 30,728	$ 26,284	$ 23,503	$ 22,341
Segregated funds	**$ 22,090**	$ 22,383	$ 21,875	$ 18,672	$ 16,136	$ 9,388

[1] *The restatements made as a result of adopting the new Standards of Practice for the Valuation of Policy Liabilities of Life Insurers issued by the Canadian Institute of Actuaries have been retroactively applied as of the third quarter of 2001 to the first quarter of 2000. For further information see notes 2(a) and 3 to the Consolidated Financial Statements.*

[2] *The 1998 opening policyholders' equity has been restated to reflect the change in accounting policy for future income taxes. The 1997 and prior years' figures have not been restated for this change.*

Table 4 — Quarterly Information[1]

(in millions of Canadian dollars except for per share and percentage amounts)	2001 Q4	Q3	Q2	Q1	Fiscal	2000 Q4	Q3	Q2	Q1	Fiscal
PERFORMANCE MEASURES										
Shareholders' net income	**$ 38**	**$ 91**	**$ 114**	**$ 99**	**$ 342**	$ 95	$ 94	$ 96	$ 71	$ 356
Earnings per common share	**$ 0.23**	**$ 0.57**	**$ 0.71**	**$ 0.62**	**$ 2.13**	$ 0.59	$ 0.59	$ 0.60	$ 0.44	$ 2.22
Book value per common share	**$ 20.19**	**$ 20.10**	**$ 18.79**	**$ 18.88**		$ 18.03	$ 17.56	$ 17.10	$ 16.66	
Return on common shareholders' equity	**11.1%**	**13.2%**	**14.0%**	**13.5%**		12.9%	13.3%	13.4%	12.8%	
MCCSR ratio[2]	**191%**	**184%**	**184%**	**190%**		197%	189%	190%	184%	
Dividends per common share	**$ 0.13**	**$ 0.13**	**$ 0.13**	**$ 0.13**	**$ 0.52**	$ 0.12	$ 0.12	$ 0.12	$ 0.12	$ 0.48
PREMIUMS, PREMIUM EQUIVALENTS AND NEW DEPOSITS										
General fund premiums	**$ 1,372**	**$ 1,335**	**$ 1,314**	**$ 1,337**	**$ 5,358**	$ 1,187	$ 1,192	$ 1,153	$ 1,144	$ 4,676
Segregated funds deposits	**838**	**917**	**904**	**1,169**	**3,828**	834	711	1,103	1,044	3,692
ASO premium equivalents and other deposits[3]	**505**	**499**	**479**	**560**	**2,043**	200	322	178	182	882
	$ 2,715	**$ 2,751**	**$ 2,697**	**$ 3,066**	**$ 11,229**	$ 2,221	$ 2,225	$ 2,434	$ 2,370	$ 9,250
ASSETS UNDER ADMINISTRATION										
General fund	**$ 34,951**	**$ 34,326**	**$ 33,032**	**$ 33,493**		$ 32,736	$ 32,538	$ 31,372	$ 31,290	
Segregated funds	**22,090**	**20,093**	**21,105**	**21,104**		22,383	23,026	22,762	22,771	
	57,041	**54,419**	**54,137**	**54,597**		55,119	55,564	54,134	54,061	
Other assets[3]	**8,384**	**8,187**	**8,303**	**8,202**		8,138	2,909	2,668	2,765	
	$ 65,425	**$ 62,606**	**$ 62,440**	**$ 62,799**		$ 63,257	$ 58,473	$ 56,802	$ 56,826	

[1] *The restatements made as a result of adopting the new Standards of Practice for the Valuation of Policy Liabilities of Life Insurers issued by the Canadian Institute of Actuaries have been retroactively applied as of the third quarter of 2001 to the first quarter of 2000. For further information see notes 2(a) and 3 to the Consolidated Financial Statements.*

[2] *Minimum Continuing Capital and Surplus Requirements (MCCSR) is calculated in accordance with capital standards set by the Company's primary regulator, the Office of the Superintendent of Financial Institutions, Canada. The MCCSR ratio has been restated for 2000 on a pro forma basis for the impact of the new Life Standards of Practice adopted in 2001.*

[3] *Other deposits are included in other assets administered by the Company on behalf of third parties and are not included in general or segregated funds of the Company.*

Corporate Governance

Canada Life Financial Corporation (the Company) was incorporated in 1999 for the purpose of becoming the parent of The Canada Life Assurance Company (CLA).

The Company has no assets or liabilities (other than its beneficial holding of all the outstanding shares of CLA) of more than nominal value having regard to the total consolidated assets of the Company. The Boards and Committees of Directors of the two Companies are identical.

To achieve high standards and best practices in corporate governance matters, the Corporate Governance Committee continually reviews corporate governance developments. In respect of these reviews, the Committee considers recommendations from management, internal and external auditors, and our key regulators, including the Office of the Superintendent of Financial Institutions, Canada, the Canadian provincial securities commissions, the Toronto Stock Exchange, the New York Stock Exchange and the U.S. Securities and Exchange Commission.

Composition of the Board

The Board is comprised of individuals residing in Canada, the United Kingdom and the United States. The Directors are experienced, proven leaders, from a diverse group of professions and industries. At December 31, 2001, there were 15 Directors on the Board. The Corporate Governance Committee believes this to be an appropriate number at present to effectively oversee the business and affairs of the Company, based on the breadth and depth of experience and skill represented by the Board members. Only one Director, Mr. D. A. Nield, the Chairman, President and Chief Executive Officer, is related to the Company.

Evaluation of potential candidates for election to the Board is performed by the Corporate Governance Committee based on criteria established by the Committee. This enables the Committee to recommend to the Board, candidates with the skill and experience that best complement the strengths of the current Board.

Chairman of the Board

The dual role of Mr. D. A. Nield as Chairman of the Board and Chief Executive Officer does not, in the opinion of the Corporate Governance Committee, impair the Board's ability to function independently of management. The Board believes that his extensive knowledge of the Company's business is beneficial to the rest of the Directors. To further reinforce independence, the Board has appointed a Lead Director and meets regularly, in camera, without the Chairman present. In addition, the Chairman does not have a casting vote.

Compensation of the Board

To ensure that compensation is adequate, realistically reflects the responsibilities and risks involved in being an effective Director and is competitive in today's marketplace, Directors' compensation is annually benchmarked against the Company's Canadian peers. The Corporate Governance Committee makes recommendations to the Board on the amount and form of compensation. The Directors receive meeting attendance fees based on one meeting even though business relating to both the Company and CLA is discussed at the meeting. In order to align the interests of Directors with shareholders, share options of the Company are granted to Directors subject to a limit on the total number of options that can be granted to the Directors. Each Director is encouraged to personally acquire five times the value of his or her annual retainer in common shares of the Company, over a period of six years.

Assessment of the Board

The Corporate Governance Committee annually makes an assessment of the Board's effectiveness in fulfilling its responsibilities.

Advisors to the Board

The Board has established a policy that enables the Board, Board Committees and individual Directors to engage an outside advisor at the expense of the Company in appropriate circumstances. The engagement of an outside advisor is subject to the approval of the Chairman of the Corporate Governance Committee.

Role of the Board

The Board is responsible for the stewardship of the Company and makes all major policy decisions for it. Its responsibilities are principally derived from its mandate and include:

- overseeing the management of the business and affairs of the Company
- reviewing and approving strategic plans, overseeing their implementation and monitoring corporate performance against them
- reviewing and approving dividend policies
- reviewing and approving quarterly and annual financial statements
- reviewing and considering principal business risks and overseeing risk management policies
- overseeing the integrity and effectiveness of the internal control and management information systems and shareholder communications policies
- reviewing and approving material transactions such as significant investment transactions and acquisitions or divestitures of businesses
- appointing and evaluating the Chief Executive Officer and senior management
- reviewing and determining compensation for the Chief Executive Officer and senior management
- overseeing succession planning

Roles of Board Committees

The Committees perform the duties identified in formal mandates.

The **Corporate Governance Committee** addresses corporate governance matters pertaining to the Board, Board Committees, shareholders and policyholders. The Committee's responsibilities include:

- recommending suitable candidates for election to the Board of Directors
- reviewing and recommending improvements to the Company's approach to corporate governance matters, including terms of reference and membership of Board Committees, mechanics of Board and Committee meetings and compensation of the Board
- assessing the effectiveness of the Board

All members are unrelated to the Company.

The **Audit and Risk Management Committee** assists the Board of Directors in fulfilling their oversight responsibilities with respect to financial, regulatory and public reporting, financial condition, risk management policies and procedures, including internal controls and audit activities. The Committee's responsibilities include:

- reviewing the quarterly and annual financial statements and returns of the Company
- meeting with the external auditor to discuss the financial statements and any regulated securities filings
- meeting with the actuary to discuss parts of the financial statements and the annual returns
- meeting with the internal auditor and management of the Company to discuss the effectiveness of the risk management policies and procedures, including internal controls established for the Company and to evaluate compliance with those policies and procedures

All members are unrelated to the Company.

The **Human Resources Committee** ensures that effective compensation policies are in place to retain and properly deploy skilled, effective officers and employees. The Committee's responsibilities include:

- assessing performance and reviewing compensation of the Chief Executive Officer
- reviewing all senior management appointments and compensation
- reviewing management succession planning, organization and structures

All members are unrelated to the Company.

The **Conduct Review Committee** ensures that effective procedures are in place and are followed for dealing with related party transactions and other important aspects of corporate conduct. The Committee's responsibilities include:

- reviewing and monitoring the procedures established by management for the review of transactions with related parties of the Company and to ensure that material transactions are identified
- reviewing and recommending to the Board, procedures to identify and resolve conflicts of interest and procedures to restrict the use of confidential information
- monitoring the conflict of interest, confidential information and insider trading procedures established by the Board

All members are unrelated to the Company.

The **Pension Committee** sets or reviews financial policies of the staff and agents pension and savings-type plans for funding and investments and oversees monitoring of these policies for compliance. The Committee's responsibilities include:

- advising the Board on matters related to the plans' funding, investments, administration and government compliance
- reporting to the Human Resources Committee all relevant matters related to the financial management of pension funds which may impact benefit policy
- approving pension trustee appointments and removals

All members are unrelated to the Company.

Communication with Shareholders

The Company is committed to communicating regularly with shareholders through its web site, annual reports and media releases. In addition to public disclosure documents that are filed with regulatory authorities, the Company also makes quarterly reports available to shareholders.

The Company responds promptly to shareholder inquiries through its Investor Relations and Corporate Communications departments and through its transfer agent, Computershare Trust Company of Canada.

The Company's compliance with the Guidelines for Improved Corporate Governance in Canada issued by the Toronto Stock Exchange ("TSE Guidelines") is highlighted below:

TSE Guidelines	Compliance
Board responsible for overall stewardship of company	Yes
Board constituted with majority of unrelated directors	Yes
Corporate Governance Committee constituted with non-management directors	Yes
Process for assessing Board effectiveness	Yes
Orientation for new directors	Yes
Board size suitable for effective decision-making	Yes
Satisfactory compensation of directors	Yes
Independence of Board committees	Yes
Relevant corporate governance issues addressed by Corporate Governance Committee	Yes
Position description for the CEO	Yes
Board functions independently of management	Yes
Audit Committee composed only of outside directors and has direct communication with the company's auditors	Yes
System for Board to engage outside advisors	Yes

Board of Directors

David A. Nield
Chairman of the Board, President and Chief Executive Officer
Canada Life Financial Corporation and The Canada Life Assurance Company
Toronto, Ontario, Canada

James C. Alfano
President & Chief Executive Officer
Stelco Inc.
Hamilton, Ontario, Canada

George S. Bain
President and Vice-Chancellor
The Queen's University of Belfast
Belfast, Northern Ireland

Angus A. Bruneau
Chairman
Fortis Inc.
St. John's, Newfoundland and Labrador, Canada

John R. Hall
Corporate Director, Former Chairman and Chief Executive Officer
Ashland Oil, Inc.
Ashland, Kentucky, U.S.A.

Michael L. Hepher
Chairman and Chief Executive Officer
TeleCity, plc
London, England

Monique Jérôme-Forget
Member of the Quebec National Assembly
Riding of Marguerite-Bourgeoys
Montreal, Quebec, Canada

David W. Kerr
President and Chief Executive Officer
Noranda Inc.
Toronto, Ontario, Canada

David W. Lay
Corporate Director
Toronto, Ontario, Canada

Harold H. MacKay
Chairman
MacPherson Leslie & Tyerman
Regina, Saskatchewan, Canada

Diane E. McGarry
Chief Marketing Officer
Xerox Corporation
Stamford, Connecticut, U.S.A.

Cedric E. Ritchie
Corporate Director
Former Chairman of the Board and Chief Executive Officer
The Bank of Nova Scotia
Toronto, Ontario, Canada

T. Iain Ronald
Corporate Director
Former Vice-Chairman
Canadian Imperial Bank of Commerce
Toronto, Ontario, Canada

Arthur R. A. Scace
Partner, McCarthy Tétrault LLP
Former Chairman
McCarthy Tétrault LLP
Toronto, Ontario, Canada

John D. Wetmore
Vice-President
ibm.com, Americas
Toronto, Ontario, Canada

Summary of Attendance

The Directors of Canada Life Financial Corporation and The Canada Life Assurance Company hold Board and Committee meetings at the same time and in the same place.

(For the period January 1 – December 31, 2001)	Board Meetings	Audit and Risk Management Committee	Conduct Review Committee	Corporate Governance Committee	Human Resources Committee	Pension Committee
James C. Alfano	14		1			2
George S. Bain	13			3	6	
Angus A. Bruneau	13	5	1			
Edward H. Crawford *(Retired - Apr 12, 2001)*	1 (of 1)			1 (of 1)	2 (of 2)	
Graham R. Dawson *(Retired - Apr 12, 2001)*	1 (of 1)			1 (of 1)		
John R. Hall	10				6	
Michael L. Hepher	13		1			
Monique Jérôme-Forget	11	3	1			
David W. Kerr	11	1 (of 2)[1]			4 (of 4)[1]	
David W. Lay	14	5				2
Brandt C. Louie *(Resigned - Nov 16, 2001)*	10 (of 11)			2 (of 2)[2]		
Harold H. MacKay	12			4		2
Diane E. McGarry	12	5		3		
David A. Nield	13					
Cedric E. Ritchie	13				6	
T. Iain Ronald	13	5			6	
Arthur R.A. Scace	14			4	5	
John D. Wetmore *(Elected - May 2, 2001)*	10 (of 11)			1 (of 1)[3]		
Total Number of Meetings Held	14	5	1	4	6	2

[1] *Reassigned from the Audit and Risk Management Committee to the Human Resources Committee on April 12, 2001.*
[2] *Joined the Committee on April 12, 2001, and resigned from the Committee on November 16, 2001.*
[3] *Joined the Committee on November 16, 2001.*

Board Committees

Audit and Risk Management

Angus A. Bruneau
Monique Jérôme-Forget
David W. Lay
Diane E. McGarry
T. Iain Ronald*

Conduct Review

James C. Alfano
Angus A. Bruneau
Michael L. Hepher
Monique Jérôme-Forget*

Corporate Governance

George S. Bain
Harold H. MacKay
Diane E. McGarry
Arthur R.A. Scace*
John D. Wetmore

Human Resources

George S. Bain
John R. Hall
David W. Kerr
Cedric E. Ritchie*
T. Iain Ronald
Arthur R.A. Scace

Pension

James C. Alfano
David W. Lay*
Harold H. MacKay

* *Committee Chairman.*

Glossary of Terms

Annuity
A contract that provides for income payments made by the Company to a named person at regular (typically monthly) intervals, either for a specific period (an annuity certain) or for the lifetime of the annuitant (a life annuity).

Administrative services only (ASO) contracts
Group benefit plans administered by the Company on behalf of the customer. The Company earns fees for its administrative services, but the customer retains all insurable risks and is responsible for paying all claims.

Cash surrender value
The amount available in cash when the policyholder voluntarily terminates the policy before it becomes payable either on death or maturity.

Creditor life and disability insurance
Insurance protection for borrowers in the event of disability or death. This product is administered through the Company's group life and health operations.

Critical illness insurance
Insurance purchased to mitigate the financial strain of surviving a critical illness, which can include a lump sum benefit after diagnosis of one of the covered critical illnesses.

Deferred annuity
An annuity contract where premiums are accumulated and annuity income benefits begin more than one annuity period after the date on which the annuity is bought.

Defined contribution plan
A plan that does not guarantee specific retirement benefits. The retirement benefit amount paid depends on the contribution amounts and earnings performance.

Endowment
An insurance policy that provides a benefit if the insured dies during the endowment period and a benefit if the insured survives to the end of the endowment period.

Financial reinsurance
Reinsurance primarily designed to serve some financial or business purpose of one or both of the companies that are party to the agreement. For example, a financial reinsurance transaction can improve the profit or surplus of the ceding company or aid its tax planning.

General fund
The assets and liabilities of the Company, excluding the Segregated Funds.

GIC
A guaranteed investment contract.

Group health insurance
An insurance policy that provides coverage to a group of people (e.g., employees) according to the terms of one master contract for various health related expenses, such as medical and dental expenses, and/or for income replacement in the event of a disability.

Group life insurance
An insurance policy under which the lives of a group of people (e.g., employees) is insured according to the terms of one master contract. This type of policy is most commonly obtained by employers to provide term life insurance for their employees.

Guaranteed annuity (fixed annuity)
An annuity contract, under which the amount is accumulated by investing over a chosen term, entitling the customer to receive guaranteed amounts in the future.

Immediate or payout annuity
A contract to receive a set stream of income not subject to market or investment risk. The various payout options include: life only, life with a minimum guaranteed payout period, joint and survivorship that is lifetime payout for two annuitants and period certain only.

Individual life insurance
A policy issued to insure the life of a named person/persons, not individuals of a group.

Investment grade bonds
Bonds that are classified with a credit rating of BBB and above as defined by Standard & Poor's.

MCCSR
Minimum Continuing Capital and Surplus Requirements. A risk-based formula prescribed by the Office of the Superintendent of Financial Institutions, Canada to assess the adequacy of an insurance company's capital as compared to the regulatory minimum.

Participating policy
An insurance policy or annuity that is eligible for dividends from the participating account net income. A participating policy also gives the contract holder certain voting rights.

Reinsurance
A type of insurance that one company, the ceding company, purchases from another company, the reinsurer, to transfer the risks on insurance policies issued by the ceding company.

Retrocession
A transaction where a reinsurer cedes a portion of its risks to another reinsurer, or a parcel or unit of insurance that one reinsurer has assumed and cedes to another reinsurer.

Retrocessionaire
The reinsurance company that accepts the excess risk of another reinsurer.

Segregated funds
A fund established by a life insurance company consisting of assets that are separate and distinct from the other assets of the company. The company's liability may vary in amount depending on the market value of the fund's assets. By law, the claims of the policyholder or policyholders in respect of whom the fund is maintained have priority over any other claim against the fund's assets. Similar products are unit-linked and unit trust products in the United Kingdom and separate accounts in the United States.

Single premium product
A contract purchased with a single, lump-sum payment.

Term life insurance
A policy under which the benefit is payable only if the insured dies during a specified period.

Underwriting
The process by which an insurance company assesses the risk inherent in an insurance application before issuing the policy.

Variable annuity or variable annuity product
An annuity contract under which premiums paid are invested in the company's segregated funds and the value of which fluctuates with the investment experience of the segregated funds assets.

Whole life insurance
Life insurance that remains in force during the insured's entire life, provided premiums are paid as specified, and builds a cash surrender value.

Subsidiaries

Subsidiary Name	Operating Location	Consolidated Book Value (in millions of Canadian dollars)	Description
The Canada Life Assurance Company	Toronto, Canada	$ 3,411	Financial services company offering wealth management and protection products
Canada Life Capital Corporation Inc. (formerly 3605744 Canada Inc.)	Toronto, Canada	705	Holding company
Canada Life International Holdings Limited	Hamilton, Bermuda	1,508	Holding company
Canada Life Irish Holding Company Limited	Dublin, Republic of Ireland	306	Holding company
Canada Life Management Services Limited	Dublin, Republic of Ireland		
Canada Life Assurance (Ireland) Limited	Dublin, Republic of Ireland	295	Financial services company offering wealth management and protection products in the Republic of Ireland
F.S.D. Investments Limited	Dublin, Republic of Ireland		
Canada Life Pension and Annuities (Ireland) Limited	Dublin, Republic of Ireland		
Setanta Asset Management Limited	Dublin, Republic of Ireland	3	Investment management company
Canada Life Assurance Europe Limited	Dublin, Republic of Ireland	8	Financial services company offering wealth management and protection products in Germany
CLAI Limited	Dublin, Republic of Ireland		
The Canada Life Assurance Company of Ireland Limited	Dublin, Republic of Ireland		
Canada Life International Re Ltd.	Dublin, Republic of Ireland	53	Reinsurance company offering traditional and structured products
Canada Life Insurance Company of Puerto Rico, Inc.	San Juan, Puerto Rico	8	Financial services company offering group protection products in Puerto Rico and the U.S. Virgin Islands, commencing early 2002
The Canada Life Group (U.K.) Limited	Potters Bar, United Kingdom	1,141	Financial services company offering wealth management and protection products in the United Kingdom
Copia Investors Limited *(formerly Canada Life Asset Management Limited)*	Potters Bar, United Kingdom	5	Investment management company
Canada Life Trustee Services (U.K.) Limited	Potters Bar, United Kingdom		
Copia Property Limited *(formerly Arch Fund Management Limited)*	Potters Bar, United Kingdom	1	Property investment management company
Canada Life Limited	Potters Bar, United Kingdom	1,135	Financial services company offering wealth management and protection products in the United Kingdom
Canada Life (U.K) Limited	Potters Bar, United Kingdom	156	Financial services company offering wealth management and protection products in the United Kingdom
Albany Life Assurance Company Limited	Potters Bar, United Kingdom		
Canada Life Management (U.K.) Limited	Potters Bar, United Kingdom	10	Investment management company
Canada Life International Limited	Castletown, Isle of Man	127	Financial services company offering wealth management and protection products in the Isle of Man
Canada Life Services (U.K.) Limited	Potters Bar, United Kingdom	4	Holding company for capital assets
Canada Life Fund Managers (U.K.) Limited	Potters Bar, United Kingdom	7	Investment management company
Canada Life Pension Managers & Trustees Limited	Potters Bar, United Kingdom		
Canada Life Group Services (U.K.) Limited	Potters Bar, United Kingdom		
Canada Life Holdings (U.K.) Limited	Potters Bar, United Kingdom		
Canada Life Irish Operations Limited	Potters Bar, United Kingdom		
Canada Life Ireland Holdings Limited	Potters Bar, United Kingdom		
Canada Life Brasil LTDA.	Rio de Janeiro, Brazil	14	Holding company
Canada Life Pactual Previdência e Seguros S.A.	Rio de Janeiro, Brazil	14	Financial services company offering wealth management and protection products in Brazil
Canada Life Insurance Company of New York	Ardsley, United States	44	Financial services company offering wealth management and protection products in the United States
Canada Life Insurance Company of America	Atlanta, United States	264	Financial services company offering wealth management and protection products in the United States
Canada Life of America Financial Services, Inc.	Atlanta, United States		
CL Capital Management, Inc.	Atlanta, United States		
Canada Life Financial Distribution Services Inc.	Montreal, Canada		
Kanetix Ltd. (98%)	Toronto, Canada	5	Internet insurance services
Canada Life Securities Inc.	Toronto, Canada	1	Investment management company
Canada Life Mortgage Services Ltd.	Toronto, Canada	3	Originates and services commercial mortgage loans
Classco Benefit Services Limited	Toronto, Canada		
587443 Ontario Inc. *(formerly Canada Life Capital Corporation Inc.)*	Toronto, Canada		
Canada Life Securing Corporation Inc.	Toronto, Canada		
Pelican Food Services Limited	Toronto, Canada		
Adason Properties Limited	Toronto, Canada	2	Holding company
Adason Realty Ltd.	Toronto, Canada		
Canadian Worksite Marketing Group Inc.	Toronto, Canada		

Notes

1) The Company indirectly owns 100% of the voting shares of each subsidiary through The Canada Life Assurance Company, unless otherwise noted.

2) Laketon Investment Management Ltd. is 40% owned by the Company.

3) The Canada Life Assurance Company controls 100% of the Variable Rate Cumulative Preferred Series A and 100% of the 9% Junior Preferred Series A shares of Canada Life Mortgage Services Ltd.; 100% of the Non-Redeemable Junior Preferred shares of Adason Properties Limited; 100% of the Redeemable Preferred shares of Canada Life Insurance Company of America; 100% of the 9% Redeemable Non-Cumulative Preference shares of Canada Life Management (U.K.) Limited; and 100% of the Preferred shares of Canada Life Pactual Previdência e Seguros S.A.

Corporate and Investor Information

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Secretary
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Any inquiries other than change of address, shareholder dividends, lost certificates or change in registration of shares should be directed to Investor Relations. The Investor Relations page of our corporate site contains the Company's main financial information.

Divisional Addresses:

Canadian Division
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Change of address or change in registration:
Please write or call the Company's transfer agent.

Transfer Agent

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Computershare Trust Company of Canada
100 University Avenue
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Computershare Investor Service PLC
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Republic of Ireland
Computershare Investor Services (Ireland) Ltd.
Heron House, Corrig Road
Sandyford Industrial Estates
Dublin 18
Phone: 01 216 3100

Shareholder Dividends:
Shareholder dividends are payable at the discretion of the Board of Directors.

Earnings Release Dates:
February 6, 2002; May 2, 2002
August 7, 2002 and
November 6, 2002

Exchange Listings:
The Toronto Stock Exchange
Ticker symbols: CL and CL.PR.B
The New York Stock Exchange
Ticker symbol: CLU

Annual Meeting:
Shareholders are invited to attend our annual meeting on Thursday, May 2, 2002 at 10:30 a.m. at Canada Life, 330 University Avenue, Toronto, Ontario, Canada in the Corporate Conference Centre.

Auditors:
Ernst & Young LLP

Design: Bryan Mills Group, Toronto **Photography:** Paul Orenstein Photography **Printing:** Bowne of Toronto

Canada Life™

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More than ever...

Our vision is to be a "world class financial services provider, delivering exceptional customer value and helping people achieve more through the excellence and integrity of our people".

We're proud to have helped policyholders, employees, shareholders, business partners and people in the communities where we do business achieve more for the last 154 years and we will continue into the future.

This year, we launched a modern visual identity for Canada Life. It combines fresh and familiar elements to better represent our business focus.

We're proud of the new visual identity and the Company it represents — we hope you are too.

Canada Life
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Website: www.canadalife.com